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B2B: AN EMERGING E–FRONTIER FOR SMALL BUSINESS

FORUM

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

ONE HUNDRED SIXTH CONGRESS

SECOND SESSION

MAY 18, 2000

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B2B: AN EMERGING E–FRONTIER FOR SMALL BUSINESS

THURSDAY, MAY 18, 2000

U.S. SENATE,
COMMITTEE ON SMALL BUSINESS,
Washington, D.C.

The Committee met, pursuant to notice, at 9:34 a.m., in room SR–428A, Russell Senate Office Building, the Honorable Christopher S. Bond (Chairman of the Committee) presiding.

Present: Senators Bond and Burns.

OPENING STATEMENT OF THE HONORABLE CHRISTOPHER S. BOND, CHAIRMAN, SENATE COMMITTEE ON SMALL BUSINESS, AND A UNITED STATES SENATOR FROM OF MISSOURI

Chairman BOND. Good morning and welcome to another of the Small Business Committee's forums. Today we have a very exciting, interesting, and timely subject. We have three great lead off witnesses that I think will be of interest to all of you. We are going to be exploring the exploding growth of Internet-based business-to-business commerce, or B2B commerce.

We were thinking about calling this, "B2B or Not B2B," but my staffers who create those corny jokes are not up to top speed. So we thought the more important questions for today are: How can small businesses take advantage of this trend? What obstacles do small businesses face in trying to take advantage of it? Is this trend a benefit or a problem for small business? These were captured better in the title of, "An Emerging E-Frontier for Small Business." It lacks some of the sex appeal but probably more accurate.

The Committee's goal in holding this forum is to help the small business community and us better understand the opportunities that are becoming available through the use of the Internet and the computer revolution in general. Although many in the high-tech industries are very familiar with the possibilities, many small businesses still lag behind and are unaware of how their businesses could benefit.

In addition, larger businesses also have the luxury of hiring consultants to help them figure out what to do and how to do it. With small business, becoming familiar with this new technology often has to compete with all the other demands of running a business and this can sometimes be put too far on the back burner to allow them to take full advantage of e-commerce opportunity.

The impact of the Internet on business can be extremely varied. In many cases, the difference may be just a question of thinking

outside the box and using a little imagination, such as developing a web site to support other advertising. In other cases, the difference can mean a significant restructuring of the way small businesses do business, such as using the Internet to satisfy the supply needs of business as with B2B commerce.

In the end, the goal is the same as it has always been: to do things better, faster, and less expensively. Competition demands constant innovation and adjustment, and the Internet represents the latest toolbox available to small businesses to help with this process.

With us today are three very distinguished speakers who will help us understand the dimensions of this new trend. After their presentations we will have an open discussion with all other invited participants as well as Members of the Committee and staff. We hope this will be a free-flowing conversation, and I hope that you have lots of questions and there is a lot of discussion. I ask that in order to be recognized you take the card in front of you and stand it up on end like that so we will know who is waiting to be recognized. And if you would keep your comments short it will allow more people to get into the discussion.

The record for the forum will remain open for 2 weeks, until June 1, for any additional comments you might want to submit. We also invite comments from those who are watching through the Internet or on television and ask that they let us know. We have information on how to contact the Committee through our web site, through fax machine, and even old-fashioned letters. We still do take letters as well.

Senator Kerry had to be on the floor to introduce the chaplain for today's session, and the way things are going we need all the blessings we can get. So I expect my colleague and Ranking Member, Senator Kerry, to be here before long. Also I believe Senator Burns is going to be joining us because he is a great champion of e-commerce and is very, very interested in all of this.

So enough of the chatter, let us begin with the discussions today from the panelists. Let me introduce first Rick Villars, vice president for Internet and e-commerce, International Data Corporation in Framingham, Massachusetts. His team forecasts worldwide Internet adoption, e-business spending patterns, and the opportunity for e-marketplaces. They also analyze the evolution of e-commerce with a focus on business-to-business developments and identifying emerging trends and market dynamics that are shaping the demand for Internet and e-commerce products and services.

Mr. VILLARS.

STATEMENT OF RICHARD VILLARS, VICE PRESIDENT, INTERNET & E-COMMERCE STRATEGIES, INTERNATIONAL DATA CORPORATION (IDC), FRAMINGHAM, MASSACHUSETTS

Mr. VILLARS. Thank you, Senator Bond. Let me start by thanking you, Senator, as well as the other Senators on the Committee and the staff for having me here today to discuss what is in many cases a critical but often overlooked issue with regards to the Internet and e-commerce; namely, the role of small businesses in making all this happen.

When IDC was founded 36 years ago we were dedicated to the task of analyzing how computers and networks would change the lives of individuals and the practices of businesses around the world. Over the last decade, certainly the most important force changing the dynamics for businesses and individuals has been the Internet. We dedicated ourselves during this period to really understanding how companies, and how individuals are using this technology.

We draw on research from fellow analysts in about 38 countries around the world specifically to develop what we call the Internet commerce market model. This model is how we track use of the Internet by businesses—large and small—Government agencies, and individual users.

In the year 2000, approximately $210 billion worth of goods and services were purchased by all businesses around the world. If you compare that to 1995 when there was none, we see a dramatic increase. But when we extend our forecast out to the year 2004 we find that total purchasing by businesses will be around $2.2 trillion. So we are seeing a tenfold increase in the use of the Internet to conduct business in the next 5 years.

As you look at that $2.2 trillion, you quickly realize that this is not something that is just for the Fortune 500. The Internet is not just a tool for large businesses to go out and buy and sell goods online. To make this kind of change in the overall business dynamic you have to include what we often call the forgotten five million; all the small businesses out there trying to do their job, sell to their customers locally and around the globe.

I went and spoke to several of our analysts, including the vice president in charge of our small business research at IDC, Ray Boggs. We looked at the Internet commerce market model to see how much business was actually taking place online through small businesses. We can report that from the standpoint of being a buyer, small businesses are absolutely carrying their weight on the Internet. In the year 2000, small businesses around the globe will purchase about 30 percent of all the goods that are being purchased online. So they are absolutely playing a role as buyers, going online and purchasing goods.

But when we look at small businesses as sellers, and ultimately the reason you are in business is to sell something—we find the issues and the responses more troubling. Today, small businesses are not able to compete and participate as sellers on the Internet in any meaningful way.

When we go back and we look at that $210 billion, 50 percent of that is driven by large companies who set up e-commerce sites and then go out and tell their customers to buy online. For example, a law firm in Oregon may go and buy computers from Dell, or a manufacturing company in North Carolina, may go and purchase plastic from GE Plastics,' web site. Finally you might see a small greeting card store in my hometown of Wilmington, Ohio go and buy cards from American Greetings online.

Another major force driving e-commerce is that these same large businesses are setting up procurement systems so that their purchasing managers can go out and buy products. In the case of Ford, managers can go out and buy windshields and brake parts and

shorten their supply chain and improve the ordering of goods in their manufacturing processes. Combine these procurement systems and suppliers e-commerce systems and you find that about 90 percent of all e-commerce is flowing through those two paths.

If you look at both, you will find that there is very little room for small businesses. They cannot participate in actively getting all the advantages of e-commerce either as large volume buyers or sellers.

What we think is absolutely critical and is going to change this in the next 4 years is the emergence of what we call e-marketplaces. They go under a lot of names. You hear them called exchanges, auction sites, marketplaces, e-markets. The whole point of these sites is that a third party sets up a system where large numbers of buyers and suppliers come together in a common community. They can exchange information, collaborate on new business activities, and ultimately, purchase goods, either through a catalogue, an auction system or some kind of exchange mechanism.

We believe that this model is the most effective for small businesses to participate as sellers on the Internet and in e-commerce. It will be an important path for small business to take to actually benefit from the world of e-commerce.

I'll conclude my remarks with four questions that we think will be critical to really defining whether or not small businesses can find a place at the e-commerce table. The first issue has to do with, access to these services. Our research shows that in the United States about 60 percent of small businesses—and we would define these as companies with under 100 employees—have access to the Internet.

That actually sounds like a very large number compared to even large businesses. But when you look at how they are actually connected you find that only about 11 percent are connected via some kind of high-speed permanent connection. The rest are dialing up through modems. While dialing up to the Internet is a great way to buy products and surf the net, you cannot effectively be a seller on the Internet unless you are always connected to the Internet, so people can come to you to buy products.

So the issue of providing better access, more cost-effective access, and integration of this access with the back office accounting, and ordering systems, that small businesses already have in place is a major challenge that e-marketplaces and companies who are in the small business community are going to have to deal with.

Another major issue going forward has to do with how you run your business once you move to the Internet. The challenge here is how do you deal with credit and with potential financing issues that come along. When I am a small business selling to local people, I am comfortable, I know who they are, I can extend them credit, I can issue a PO and they can pay me back in 30 days.

Once I come online, now I am dealing with companies around the country or potentially around the globe and there is a greater risk associated with providing them services. I need more automated mechanisms to help finance that system, so that I can extend credit automatically, and I need to have a bank or some other financial institution backing me up.

So we see the need for more integration of the financing mechanisms that are supporting small business today in these e-marketplaces.

The third major challenge is, if you look at e-marketplaces you find that one of their most important characteristics is that they now are collecting all of the information about the sales and the transactions. Not just the successful sales, but also the unsuccessful sales where somebody goes out and shops for a good and then decides to purchase it from someone else.

All of this information is very valuable, but obviously we are now starting to deal with issues around privacy, around the sharing of corporate information. This will be one of the most critical issues because many e-marketplaces see the analysis of this information as a revenue source. They can go out and actively sell that information to both buyers and suppliers so that they can be more competitive. But where do you draw the line in terms of sharing an individual company's information?

The final major issue that we see relative to e-marketplaces has to do with the issue of women- and minority-owned businesses. In this space, today e-marketplaces do not really acknowledge the existence of this community in any meaningful way. They can participate but they are not being designated specifically as a medium or small business.

As we know, many large companies and large Government institutions have programs in place to purchase goods from that community. Today, an e-marketplace cannot accommodate that type of service, cannot help bring that portion of their purchasing activity into the world of e-commerce.

The marketplaces themselves are not going to be able to cost effectively go out and verify who is a minority-owned business, who is a woman-owned business, and basically then provide that information to the buyer. Technically, it is very easy; administratively, a significant cost burden. Until we see a mechanism that makes it easier for e-market places to provide this function, many large companies are not going to be able to purchase from small businesses in any meaningful fashion.

With that I conclude my remarks and thank the Committee once again.

[The prepared statement of Mr. Villars follows:]

Comments Before the Senate Small Business Committee Forum, May 18, 2000

B2B: An Emerging E-Frontier for Small Business

Richard Villars
Vice President, Internet & eCommerce Strategies

IDC delivers dependable, high-impact insights and advice on the future of ebusiness, the Internet, and technology to help organizations make sound business decisions. We forecast worldwide markets and trends and analyze business strategies, technologies, and vendors using a combination of rigorous primary research and in-depth competitive analysis. IDC provides global research with local content through more than 500 analysts in 43 countries worldwide. Our customers comprise the world's leading IT suppliers, IT organizations, ebusiness companies, and the financial community. Additional information can be found at http://www.idc.com.

IDC's vision for the emerging business-to-business (B2B) e-frontier assumes that businesses, large and small, will use the Internet as a mechanism for improving communication, collaboration, and commerce with their suppliers and customers, both across the street and around the world. The emergence of emarketplaces that provide a common framework for all buyers and sellers in a specific market plays a key role in making this vision a reality for even the smallest businesses.

The Foundation of Our Vision: IDC's Internet Commerce Market Model

The foundation for much of IDC's vision of the Internet and ecommerce as well as its impact on small businesses is our Internet Commerce Market Model (ICMM). Since its creation in 1994, the ICMM has helped IDC analysts forecast the number of people accessing the Internet in 38 countries as well as the amount of Internet-based ecommerce they will conduct over the next five years. Breakdowns for ecommerce are based upon whether a user is purchasing goods or services as an individual (business-to-consumer) or as a representative of a business (small, midsize, or large), government agency, or educational institution (excluding students buying as individuals).

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ICMM ecommerce forecasts are for the value of goods purchased by individuals and organizations rather than for the amount sold by businesses. For example, data from the ICMM indicates that U.S. small businesses will account for $23.5 billion in B2B ecommerce in 2000; this means that small businesses will buy $23.5 billion in goods and services via ecommerce sites. [The information in this presentation comes from ICMM Version 6. In all of IDC's research, we define a small business as a company with fewer that 100 employees.]

The Internet: From Not Quite a Toy to a Foundation for B2B eCommerce

IDC has tracked the evolution of the Internet and its underlying technologies from its beginnings as something little more than a private playground for students, engineers, and scientists to today's global infrastructure for helping individuals and organizations around the world to more effectively exchange goods, services, and ideas.

A few figures from our ICMM will help show the magnitude of this change.

In 1997, the number of people worldwide using the Internet in businesses, government agencies, and schools as well as at home was 106 million. By the end of 2000, it will surpass 350 million, and by 2003, it will surpass 623 million. In 2001, 34% of the people on the Internet will be in the United States.

Combined, these people bought just $15.5 billion in goods and services online in 1997. In 2000, the level of ecommerce will approach $269 billion, and by 2004, it will reach $2.5 trillion. In 2001, ecommerce purchases by individuals and businesses in the United States will reach $248 billion — 48% of purchases worldwide.

Finally, prior to this January, the press and Wall Street focused their attention on the "dot-com" companies that promised to revolutionize the ways in which individuals buy everything from books to automobiles. The reality is that businesses buying from other businesses was, is, and will continue to be the driving force behind commerce on the Internet.

In 2000, B2B ecommerce will reach $210 billion, accounting for more than 78% of all ecommerce worldwide. By 2004, B2B purchases will reach $2.2 trillion, or 88% of all ecommerce worldwide. Throughout this period, U.S. businesses of all sizes will lead the growth in B2B, with total ecommerce purchases by U.S. companies reaching $924 billion in 2004.

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Taking all of these figures into account, it is obvious to us at IDC that for many companies (regardless of size), doing business on the Internet will shortly become an important requirement and, in many cases, the most important requirement for long-term success.

Small Business and the Internet: Separating Fact from Fiction

One vital question that is often ignored or casually put aside is the role that small businesses are or are not playing in the growth of the Internet. IDC has a team dedicated to the task of assessing the IT needs and investments of small businesses. Research by this group helps to dispel some common misconceptions about small businesses and the Internet.

U.S. small businesses are well connected to the Internet.

At first glance, our research would confirm this statement. Recent research shows that 61% of U.S. small businesses will be connected to the Internet at the end of 2000.

A closer examination reveals a significant problem, however. Only 16% of U.S. small businesses will be connected to the Internet through a permanent high-speed network connection. The rest are connecting their people via dial-up modems. The connection profile of a business tells a lot about its real use of the Internet. Modem connections provide small businesses with little more than the ability to let individuals browse the Internet as potential buyers. Without a permanent connection, these businesses have no real-time presence on the Internet and can't be aggressive sellers of goods and services.

The United States leads in the ecommerce conducted by small businesses.

In terms of purchasing, U.S. small businesses will account for 28% of B2B ecommerce purchasing (excluding government and education) in 2000. In Germany, small businesses will be responsible for 34% of purchasing; in Sweden and the Netherlands, 32%. Japanese small businesses will account for 27% of their country's B2B ecommerce purchases.

While not lagging, U.S. small businesses are not exactly leading in B2B ecommerce around the world.

Small Businesses and B2B: A Troubling Lack of Balance

Perhaps the most troubling misconception, however, is that the Internet makes it possible for small businesses to compete more effectively with large businesses as sellers of goods and services. An examination of current ecommerce activity in the United States and around the world reveals a major imbalance in ecommerce.

The key to understanding B2B ecommerce is to understand who controls the transaction: Is it the supplier of the goods and services,

the buyer of those goods and services, or some third party acting as an intermediary?

Small businesses play and will continue to play an important role as buyers of goods and services via the Internet. Of course, the ultimate goal of any business is to sell something. As sellers, however, small businesses play a marginal role.

Lost Among the Giants

In 2000, large businesses selling goods and services to all their customers through a sophisticated extranet will process the largest portion of ecommerce-driven purchases, over 48%. Examples include:

- Furniture makers in Raleigh, North Carolina, that order resins from GE Plastics' PolymerLand ecommerce site
- Law firms in Portland, Oregon, that order laptop computers for new associates from Dell's Small Business Center
- A gift shop owner in Wilmington, Ohio, who orders cards and wrapping paper from American Greetings

All of these sellers have the capital, the technical expertise, and the name recognition to set up and successful run commerce sites for major business customers. They also play a dominant role as suppliers of goods or services in their market. Small businesses that lack any of these resources have trouble generating significant ecommerce sales.

The Short End of the Supply Chain

Most of the rest of ecommerce activity in 2000, over 40%, will be driven by large businesses ordering goods and services from partners in their supply chain. Examples include:

- Ford and GM ordering plastic moldings and replacement machine parts for their SUV manufacturing lines
- Wal-Mart ordering clothing and sporting goods for its stores
- Marriott ordering towels and laundry services for its hotels

Suppliers that want to participate in the eprocurement systems of these giants must have automated ordering systems and be willing to provide real-time information on product prices and availability.

What's Missing from This Picture?

Today, the large sellers with commerce-driven extranets and/or large buyers with eprocurement systems are working with each other to reduce costs and be more efficient. However, a number of things are missing from the current B2B ecommerce picture.

First, suppliers and buyers in the highly fragmented markets that could benefit the most from reductions in the costs of sales and purchasing can't individually justify the required investments.

Second, neither of these B2B ecommerce mechanisms addresses businesses' need to dispose quickly of excess inventory or compensate for unexpected delays. In many industries, access to goods on a "spot market" makes the difference between a sustainable and a failed business.

Finally, small and midsize businesses function at the periphery of these sites. They are not full participants, so they can't take advantage of either the new sales opportunity or the potential cost savings in online purchasing.

The Future of B2B: eMarketplaces

In the coming years, seller-driven extranets and buyer-driven eprocurement sites will continue to play an important role in B2B ecommerce, especially in many high-tech and high-volume manufacturing markets. By 2004, the total value of goods and services moving through these extranets and eprocurement systems will approach $1 trillion. While this sounds impressive to most people, it is less than 44% of projected B2B activity.

To address the unfulfilled needs of businesses large and small, a new group of players is emerging in the world of B2B ecommerce. These new players go by many names: trading communities, industry exchanges, and auction sites. In aggregate, we call them emarketplaces.

What Is an eMarketplace?

An emarketplace is a third party that establishes itself as a community builder where buyers, suppliers, and third parties, such as distributors, can exchange information and conduct business via a shared catalog, an open auction site, or an exchange. The number of emarketplaces currently in operation or under development is in the hundreds if not thousands, with a majority based in the United States. Some of the most visible include Chemdex, NECX, eSteel, NetworkOil, PlasticsNet, PaperExchange.com, and Opus360. We know of at least 12 emarketplaces specifically for seafood.

These emarketplaces will handle just 7.5% of B2B ecommerce in 2000. By 2004, however, the value of goods and services flowing through these sites as opposed to seller- or buyer-driven sites will surpass $1.2 trillion.

Why Are eMarketplaces So Important?

Three forces will drive the emergence of emarketplaces as the dominant force in B2B ecommerce.

First, even the largest supplier can't deliver customized solutions for every customer within a specific industry or geography. No product or service is an island. Buyers always need complementary solutions that the supplier doesn't offer. eMarketplaces will emerge as an important complementary service and alternate sales channel for even the largest sellers.

Second, even dominant purchasers in a given industry won't be able to dictate to all of their suppliers. The office furniture that Ford uses isn't really different from the furniture that Aetna uses or that a small local accounting firm uses. For many products and services, the potential customer base is so broad that suppliers can't afford to integrate with tens or hundreds of eprocurement systems.

Third and most important, emarketplaces offer the best alternative for small businesses that don't have the capital, the technical expertise, or the name recognition to set up and successful run a standalone ecommerce site. eMarketplaces provide a community of buyers and sellers and the mechanisms that will finally allow small businesses to cost-effectively participate as sellers, not just buyers, in national and global markets.

Small Business in the World of eMarketplaces: Four Concerns

IDC believes that emarketplaces represent the best option for most small businesses that want to expand their businesses through the Internet. We see a number of questions that must be answered, however, before small businesses can truly participate in the world of B2B ecommerce.

What steps must be taken to reduce the upfront investments needed for small businesses to establish an ecommerce presence?

As noted earlier, most small businesses don't have a permanent presence on the Internet and are therefore incapable of acting as a seller in an emarketplace. The continued lack of cost-effective high-speed access services contributes significantly to this shortcoming, but the bigger issue is that most small businesses either lack automated transaction and/or inventory systems or use systems that are not Internet aware. The investment required to update these systems is a major burden for many existing small businesses.

The most promising solution to this challenge is the emergence of application service providers and Web hosting companies. Their outsourcing and "application rental" models promise to reduce significantly the capital investment associated with setting up ecommerce-friendly systems.

What challenges/opportunities do emarketplaces pose for women- and minority-owned businesses as well as the companies/government agencies that buy from them?

One especially sensitive subject for emarketplaces and large eprocurement systems is the issue of purchasing from women- and minority-owned businesses. Many large companies and government agencies that purchase goods and services online have extensive programs targeting these businesses. Today, eprocurement or emarketplace systems don't effectively address such programs.

Aside from the basic issue of whether women- and minority-owned small businesses can make the investments needed to establish an

ecommerce presence, another series of questions looms. Who is responsible for verification of a business's qualifications, and what standard should be used?

IDC sees the need for a common system that emarketplaces, eprocurement sites, buyers, and small businesses can use to cost-effectively automate and consolidate this verification process.

How will emarketplaces alter small businesses' order resolution and credit practices?

One promise of B2B ecommerce in general and emarketplaces in particular is the potential to expand the customer bases of all businesses, small and large. While new customers are a good thing, they can also increase the risks of bad debt and disputed orders. Every business must deal with these issues, but for many small businesses, these problems can quickly become a matter of life or death.

We look to the emarketplaces themselves as well as partnering financial institutions to provide conflict resolution and automated credit management services to help minimize these issues.

What is the proper balance between privacy rights and information access for small business buyers and sellers within an emarketplace?

One important characteristic of emarketplaces is that they are the connection point between all buyers and sellers in a community. As such, they are in the perfect position to collect extensive information on every business transaction. This information includes not just the actual transaction information but additional information on every possible purchase that did not ultimately happen. Individually and in aggregate, this information is very valuable but potentially troubling.

How this resource is handled will be a critical issue in the coming years. Obviously, emarketplaces would like to turn this information into revenue, and many suppliers would value the market intelligence. A time will come when even regulatory bodies will want access to this information for the same reasons that the Securities and Exchange Commission reviews stock market information.

To date, much of the concern over privacy, both domestically and around the world, has focused on individuals. With the advent of emarketplaces, this debate now moves to the business world.

Final Thoughts: Expanding Horizons for Small Businesses

IDC strongly believes that emarketplaces and their partners have the ability to address many of the concerns mentioned above. B2B will include small businesses as active buyers and sellers.

A review of the committee's own web site leads to one closing point. In a previous forum, the committee asked what can be done to turn small businesses into more aggressive exporters.

eMarketplaces are in an excellent position to help small businesses extend their reach beyond the U.S. border or into specific ethnic

communities within the United States. Many of the most interesting emarketplaces in operation focus specifically on connecting communities of suppliers in one country or region with buyers in another country. This targeted approach reduces the issues of translations, logistics, and international settlements that make international trade so difficult for small businesses.

Many of these emarketplaces are sponsored by industry associations and show great promise. Encouraging the creation of emarketplaces targeted at this specific opportunity is a wise investment for the future.

Chairman BOND. Thank you very much, Mr. Villars. You really set me up. I was trying to figure out how to put in a plug for the conference we are having in Kansas City on June 4 and 5, co-sponsored by Senator Kerry and four of my other colleagues, Senator Snowe, Senator Feinstein, Senator Landrieu, and Senator Hutchison. We are going to be looking at precisely those kinds of questions and want to enlist our panelists and others today—there is information again on our web site for those of you who might be interested in it. Kansas City is beautiful in June. The best barbecue in the world. But anyhow, the information I think will be very useful and it should be a very exciting and worthwhile event.

Now back to this very important hearing. Next we will hear from Angie Kim, the president and chief customer officer of EqualFooting.com from Sterling, Virginia. That is a web site that specializes in helping small businesses meet their industrial supplies and equipment needs. Ms. Kim is directly responsible for developing and managing all customer touchpoints for EqualFooting.com such as marketing, public relations, customer service, and budgets. She is the voice of the customer in all business decisions.

Her previous experience includes a lengthy list of very distinguished academic and professional activities culminating in being a member of the Global Leadership Group at McKinsey & Company and launching an online business-to-business program that targets small business. Ms. Kim, welcome.

STATEMENT OF ANGIE KIM, PRESIDENT AND CHIEF CUSTOMER OFFICER, EQUALFOOTING.COM, STERLING, VIRGINIA

Ms. KIM. Thank you so much, Mr. Chairman, and other Members of the Committee. First of all, please allow me to thank you for the opportunity to testify before you today. It is truly an honor for me to be here testifying before you, talking to you about the issue that has really intrigued me throughout all of my life, both personal and professional. That is, the emerging frontier of business-to-business e-commerce for small businesses.

My name is Angie Kim. I am co-founder, president and chief customer officer of EqualFooting.com. EqualFooting is a Virginia-based B2B e-marketplace for small businesses, and we are simply dedicated to leveling the playing field for small businesses in the areas of purchasing, financing, and shipping as well as selling.

EqualFooting.com, I started this company less than a year ago, last summer, in my basement in Fairfax County with two of my partners, Aaron Martin and Jim Fox. It was just three of us at that time working out of my basement, and now less than a year from that date of starting this business we are a company of over 150 full-time employees. We do nothing but think about the problems that small business owners face in all areas of their business operations, and we think about how a marketplace can actually help to solve some of those problems.

What I would like to do today is share with you a little bit about my background and why I came to really focus on and be interested in this problem of small business e-commerce and the opportunities therein. I also want to share with you what exactly

EqualFooting.com is doing in the areas of purchasing, shipping, and financing, and hope that we can serve as a case study of how e-commerce can truly benefit all small business owners.

Many people ask me how I came to care about small businesses. My own business background began at a very, very young age, at the age of 13 when I actually immigrated here from South Korea with my parents. We came to Baltimore, and as is probably the typical immigrant story, we actually started with a small business. We set up a grocery store.

Being an only child, and as a child having picked up English a bit quicker than my parents, I became very involved in the day-to-day operations of starting and growing this business which was, as I said, first a grocery store. It developed into yet another grocery store, then a mini-mart, and some commercial real estate, and finally into now what is a successful group of small businesses that I helped my parents with.

During this time I truly became appreciative of the disadvantages that small businesses face in all of the areas of their operations. So for example, in the area of purchasing, unlike the large companies that have dedicated staff and purchasing departments that go out, try to find the best deals, use the large volumes that the large corporations actually purchase to get volume discounts, and actually have the time and resources to figure out what supplier carries the best prices and terms for particular products, small business owners, as you all can appreciate, simply do not have the time, the resources, or the clout to go out to the marketplace and really try to find the best prices and terms.

As a result, some of the statistics that we looked at and some of the anecdotes that we have gathered from small business owners actually tell us that small business owners end up paying, particularly in the areas of industrial supplies which is something that EqualFooting focuses on, about 10 to 30 percent more than their large corporate counterparts in the area of purchasing.

Financing is another great example. Actually having done many, many applications, application after application, all of which required the same amount of information and all of which require about 2 to 3 hours to actually fill out by hand, going to bank after bank, sitting down with all of the different people who are responsible for the decisions on loans, I can truly appreciate that it takes a lot of time to get loans as a small business, and to be able to finance, start, and grow your business. This goes on and on.

Now, after I went to school and moved away from Baltimore, one of the things that I found myself doing in the last couple of years is being a management consultant to large companies, to Fortune 100 companies. It was my job there to help large companies figure out their e-commerce solutions. I was involved in both B2C and B2B e-commerce.

What I realized there and what struck me there is that this digital divide that we talk about in the socioeconomic sense truly exists in the corporate world as well. Particularly, about a year ago when not that many people were thinking about small business e-commerce, what struck me is that there really exists a corporate digital divide between the small businesses on the one hand that were not getting, and still probably are not getting, as much atten-

tion from the e-commerce companies that are setting up these marketplaces that provide efficiency in markets and purchasing and selling. The digital divide obviously is between those small businesses and the large companies that are getting a lot of attention in the B2B space.

We made it our mission, my partners and I, to say we are going to form our company, EqualFooting.com, to help put small businesses on equal footing with large companies and make it our sole dedication to overcome and to bridge this corporate digital divide that exists. So let me go into a little bit of exactly how we do that.

First let me start with purchasing. In the area of purchasing, I brought with me this big, thick catalogue. This is one of many, many big, thick catalogues that go into purchasing, if you are a small business today, purchasing industrial supplies. By industrial supplies I mean the $75 billion market out there that consists of things like fasteners, things like hand tools, generators, safety supplies and equipment. Things that businesses use to maintain and operate and repair their machinery and keep their business going forward.

These types of catalogues are illustrative of what small business owners have to go through. They typically have to leaf about 10 of these in order to find exactly the item that they are looking for. And in order to do any sort of meaningful comparison of prices or terms they have to spend a lot of time on the phone calling suppliers and asking, "Do you have this item in stock? If so, how much is it? Can you mail it to me today? Can I come pick it up today?" Whatever the case may be, whatever they are interested in.

So what we have done is set up this marketplace, and I think you can see a very simple illustration there with the selling, the supplier on the one side and buyer on the other side, and EqualFooting being the marketplace that brings these two forces together. What we have done is we have actually gone to all of these different suppliers and taken all of the data that exists here and put it into an electronic format into one integrated, virtual catalogue, if you will, that exists on EqualFooting with negotiated favorable pricing for small businesses.

What this allows is, for example, I will use AA batteries, something we can probably all relate to. If you come to EqualFooting and type in "AA batteries" then all of a sudden—we have on the next slide an example of how you can actually see immediately a list with some pictures of all the AA batteries that we have. Some of these items are exactly the same. They are Energizer AA batteries. No doubt about it, exactly the same item.

But because we carry them from lots of different suppliers and this is, in essence, the same as going through lots of these different catalogues, you can see right there that the prices range from something like 32 cents for one of these batteries to over 80 cents per battery, even for exactly the same brand. That just shows you what kind of price disparities exist and how a system like this can really help small business owners who do not have the time to make a lot of calls to find out this comparison price list, with our web site they can actually do that very quickly.

Let me also say something about the selling side of this. As a seller as well, you can participate in e-commerce by participating

in these marketplaces as well as setting up your own shop. So as a small seller you can actually come to EqualFooting and you can actually list your prices. In fact the lowest price on there is from a very small company called Batteries, Inc. that does nothing but sell batteries, which is probably why they have the best prices on AA batteries and the best delivery mechanism for that.

So I hope that e-marketplaces like EqualFooting will certainly help all small businesses both on the buy side and on the sell side find each other in efficient ways, and basically make each other's businesses work.

Thanks.

[The prepared statement of Ms. Kim follows:]

Angie Kim, President and Chief Customer Officer, EqualFooting.com
Testimony Before the Senate Small Business Committee
"B2B: Emerging e-Frontier for Small Businesses"
May 18, 2000

"Business-to-Business E-Commerce for Small Businesses: Bringing Your Bricks-and-Mortar Business Online"

Mr. Chairman and members of the Committee, first of all, allow me thank you for the opportunity to testify before you today. It is truly an honor for me to be able to talk to you about a subject to which I have devoted many of my personal and professional energies: the emerging frontier of business-to-business e-commerce for small businesses.

My name is Angie Kim, and I am President and Chief Customer Officer of EqualFooting.com, a Virginia-based B2B Internet company that serves the small business community, particularly with respect to purchasing, financing and shipping. As a small business owner myself, I understand the many challenges small business owners face, especially when it comes to understanding how best to incorporate the new world of B2B e-commerce into their business operations. Today I would like to share my experiences conducting business on the Internet, and address some of the competitive advantages businesses can gain by going on-line and doing business on-line.

First, I would like to share with you how I came to focus on helping small businesses through the Internet. My own business experience began at age 13 when my parents and I moved from South Korea to America. We left Korea, in part, because of the lack of opportunities there. An experience I had early on illustrates this; when I was in the third grade back in Korea, the teacher asked who wanted to run for class president. I raised my hand, the only girl in the class. The teacher then asked me to come to the front of the room, and she spanked my hand with a ruler, saying that girls should know better than to think they can be president of anything. Little did I imagine that years later I would be addressing the

U.S. Senate Small Business Committee as president of an Internet company.

When I arrived in the U.S., having picked up English a bit more quickly than my parents, I helped them start up a group of small businesses around Baltimore. We started with just one grocery store, but we quickly added another store, then a mini-mart, and some commercial real estate. Working with my parents as a teenager I quickly learned -- sometimes the hard way -- about the devotion, hard work, and unending hours that go into starting and growing a business.

During this time, I noticed that small businesses sometimes suffer disadvantages vis-a-vis their large corporate competitors. For example, in the areas of purchasing, financing and shipping, large corporations have entire departments and dedicated staff that devote a lot of time and resources, hunting down the best deals, soliciting bids, and demanding the best pricing for their corporations. Small businesses simply do not have the time, resources, or the clout to do that. As a result, they routinely spend significantly more time looking for good deals, only to end up with higher prices than the "national account volume discount" prices that large companies can secure.

This experience kept on coming back to me while I was a management consultant at McKinsey & Co., where it was my job to help Fortune 100 companies with their e-commerce strategies. Now, in today's world, we hear a lot of talk about the "Digital Divide"– a phrase that describes the socio-economic divide between the technological "haves" and "have-nots." Yet, what I noticed during my stint at McKinsey was a "Corporate Digital Divide." This divide is between large corporations, which are the technological "haves," and small businesses that, for many reasons, are too often the technological "have-nots." While I was analyzing the beneficial effects of the Internet, what struck me most of all is the notion that the Internet – because of its ability to provide lots of information to everyone and because of its ability to connect lots of businesses regardless of size or geography – has an equalizing effect on businesses of all types and sizes.

This is why I started my own company, EqualFooting.com: to use the power of the Internet to place small businesses on equal footing with large companies. In essence, to help small businesses use the Internet to

bridge the Corporate Digital Divide and more effectively compete in the New Economy.

For a small business that is considering how – or whether – to turn itself into an e-commerce player, there are a couple of different ways to do this. Going on-line can mean using the Internet as a resource tool to find the products and services that a small business uses in its general operations. Fulfilling their maintenance, repair and operations needs is one of the most common tasks that small business perform when buying on-line. Using the Internet in this manner -- as a tool for finding products -- involves the buy-side of B2B e-commerce. However, going on-line can also mean making your own services or products available for others to purchase over the Internet – involving the sell-side of B2B e-commerce. Many businesses get their feet wet with the buy-side of B2B e-commerce, and as they become more comfortable they often find moving to the sell-side to be the natural next step.

Let's turn first to the buy-side of B2B e-commerce, specifically, the on-line aspect of two areas that are relevant to all small businesses: purchasing and financing. Then, we will conclude by discussing two ways to get involved with the sell-side: doing-it-yourself or joining an e-marketplace.

The buy-side of B2B e-commerce can positively impact a small business' bottom-line by creating new ways to increase efficiency in the back-office of a small business. On-line tools geared toward small business needs can save them time and money by hunting down deals that used to be unavailable to small businesses before the Internet age.

First: Purchasing.

The purchasing power of small businesses is significant. American small businesses purchase in excess of $1 trillion of goods every year. The problem with small business purchasing has been its fragmented nature, meaning that companies can find it difficult and expensive to sell goods and services to many small businesses. In addition, as I mentioned before, most small businesses do not have a purchasing department focused on the purchasing aspect of their business. In general, small businesses end up paying anywhere from 10 to 35 percent more than what their large corporate counterparts pay for the same item.

One of EqualFooting's customers, Deprag, whose story appeared in the Wall Street Journal on February 7, 2000, is a good example of this disparity in purchasing power. An employee of Deprag, a small manufacturer of assembly-line machinery in Texas, contacted us at EqualFooting to tell us that she had called a large industrial supplies catalogue company and said that she wanted to buy an electric screwdriver. She was quoted the retail catalogue price of $200. As an experiment, she called back later and said she was calling from the purchasing department of a large company; she was then quoted a price of $185. She might have gotten similar low quotes from other suppliers who are smaller than the retail cataloguer, but this employee simply did not have time to make multiple calls to multiple suppliers for a $15 savings. But these small costs add up to big expenses for a business.

This is where on-line purchasing comes in to help small businesses, whether they are on-line or bricks-and-mortar businesses. Traditionally, small business purchasing was conducted through exhaustive searches of unwieldy catalogs like this one. A small business would spend hours combing through several catalogs like this in order to determine whether or not the supplier even offers the desired part. They would then spend even more time soliciting bids for price comparisons. Thanks to the Internet, that time-consuming process has been streamlined and simplified. One way to save time and money is by using an on-line purchasing agent service. For instance, at EqualFooting we help small businesses buy industrial supplies and equipment, things like power tools, fasteners, electrical supplies, safety supplies/equipment. E-Steel is another purchasing company and it helps businesses effectively buy raw steel. What these kinds of services do is bring together many different suppliers of the same types of products, and make it very easy for small businesses to do real-time comparison shopping. These purchasing services, most of which are free to the buyer, save small businesses the hassle of locating appropriate suppliers, and calling around to ask for prices from each of those suppliers.

To give you a simple example of how this works, I went to EqualFooting's site and looked up AA batteries. Eight different suppliers carry the same batteries, but the prices ranged from 20 cents to more than 70 cents – a huge difference for a small item – and imagine that same percent difference for major industrial equipment.

There are special benefits to on-line procurement too, like automated request-for-quote services that save small businesses money and the time associated with comparison-shopping. For example, EqualFooting has developed an automated RFQ service that solicits competitive bids from a network of suppliers for each buyer. Then, with the click of a mouse, the buyer can purchase the product he wants, and usually at a lower price. This saves small businesses from the time-consuming and often-frustrating process of finding suppliers and soliciting RFQs from them manually.

By aggregating the purchasing power of lots of the little guys, on-line purchasing agents yield lower prices for small businesses. A small business' savings on internal procurement can enhance its competitiveness by allowing it to cut costs, and pass those savings on to its customers. In addition, by using a trusted purchasing agent, a small business has the security of knowing that the suppliers on which it depends have been screened and pre-approved.

Second, Financing.

With on-line financing, the Corporate Digital Divide comes into play again because small businesses often lack the resources to command good terms on loans, leases, lines of credit, and the like. Sometimes, small businesses are unable to secure financing at all because lenders refuse to do business with them. How can small businesses gain access to critical capital to grow their businesses? Fortunately, on-line financing tools geared specifically toward the needs of small businesses have developed. These on-line tools allow small businesses to access large pools of pre-screened small, competitive lenders, saving small businesses time with one-stop shopping for all their financing needs, be they loans, factoring, or equipment leasing. For example, at EqualFooting our extensive network of lenders will immediately make bids for the financial products such as equipment financing, lines of credit, term loans, and SBA loans that small businesses request. This system not only gives our financial partners access to a targeted group of small business customers, but also gives them access to that group at "point-of-purchase," which dramatically lowers the cost of customer acquisition for these institutions.

Our service is similar to ELoan or Lending Tree, which offer consumer lending (including mortgage-backed loans), that many small business

owners use to finance their operations. Some of these small businesses have come to EqualFooting only after being turned down by other financial institutions. After going from one to the next, filling out all the required paperwork, then waiting for a response from the institution, they still have no viable option. EqualFooting's financial partners have already helped small businesses that faced this exact scenario. Thanks to our on-line marketplace, those small businesses were helped quickly, and they only had to fill out one application for submission to every one of EqualFooting's partners.

Moving on to the sell-side of B2B e-commerce, this side pertains to businesses that are ready to set up storefronts of their own on the Internet in order to sell their goods or services on-line. My experience, and actual market indicators, shows that small businesses have much to gain from selling on-line. However, only about 10 percent of small businesses currently operate web sites. All that is changing fast, though, as small businesses join the e-commerce revolution. Forecasts estimate that 900,000 small businesses will set up shop on the Web in 2000. In 1999, small business revenues from on-line services rose to $20 billion. That figure is expected to grow to $50 billion by 2002. The big question for small businesses is: Is e-commerce for me? I believe the answer should almost always be "yes." The trick is understanding to what extent to integrate e-commerce practices into an existing business model.

For bricks-and-mortar businesses interested in setting up virtual storefronts of their own and becoming "bricks-and-clicks," here are two of the ways they can take their business on-line.

One way to get involved in the sell-side of B2B is to do it yourself. Small businesses can create their own on-line business presence that allows other businesses to order directly from them via the Internet. There are some obvious challenges a business might face by choosing this route, among which are putting the time, money, and other resources into the costly job of web-site development. However, there are on-line services that can help make a business' transition into e-commerce easier: they help with everything from building and maintaining a customized web site, to conducting secure e-commerce transactions, to marketing a business on the Web.

A good example of this is BigStep.com. BigStep has partnered with a number of companies such as EqualFooting to reach out to small business owners with the hope of making it easier for them to build an e-business. BigStep also provides continuing support to e-businesses to help them maintain and grow their sites once they have established an on-line presence. BigStep's services are free, and can help small businesses avoid the frustration of figuring it all out on their own. If a business is serious about selling or providing a service on-line, turning to experts like the people at BigStep to get started would probably be the most efficient path to take.

Another way to get into the sell-side is to join an e-marketplace. E-marketplaces are the latest trend in B2B e-commerce. These marketplaces are dynamic electronic shopping malls that aggregate buyers and sellers, allowing them to haggle and transact with one another via the Internet. Joining an e-marketplace as a supplier can be a smart move. These marketplaces attract many buyers by offering instant comparison of the prices of many suppliers. This aggregated group of buyers and sellers means that a business may go head-to-head with its competition, but the ultimate increase in its sales volume can work wonders for a business' bottom line.

There are other advantages, besides increased sales volume, to selling in an e-marketplace. By becoming a supplier to an e-marketplace, you are able to conduct business on-line while someone else worries about the logistics of building an e-business. E-marketplaces relieve small businesses of the burden of securing capital, developing web sites, and marketing an e-business. For example, going back to the battery example, the supplier with the lowest price on this particular item was Batteries, Inc., a company that does nothing but sell batteries. It is not surprising that Batteries, Inc. had the lowest prices since batteries are all that they sell. However, a company like Batteries, Inc. cannot afford the marketing costs to reach out to the small business community on its own; that is why it looks to EqualFooting's e-marketplace to help market its business.

One aspect of the down side of e-marketplaces is that a business may not build the kind of brand recognition that it might otherwise get if it created its own unique e-storefront. However, despite the potential disadvantages, businesses are flocking to e-marketplaces. Becoming an

e-business by joining an e-marketplace can be a sound choice for many small businesses.

In terms of back-office operations, e-marketplaces work with businesses to synchronize the interaction between on-line buyers and suppliers' existing business systems. A supplier might have to make some minor adjustments in order to accommodate and fulfill orders from new on-line customers, adjustments such as setting up an e-mail account, having Internet access, or installing special software. However, designers of most e-marketplaces will make it as easy as possible for a small business to join in. For instance, at EqualFooting we accommodate all types of suppliers, even those who do not have Internet access. Non-wired suppliers can join our e-marketplace by using their phones and faxes to integrate our buyers' RFQs into their existing business operations. This is proof positive that selling on-line doesn't have to be complicated.

Lastly, a word about networking that applies to everyone in cyberspace. No matter how a business chooses to get involved in e-commerce, building strategic alliances with other resources on the Web is a powerful asset to every e-business. One valuable element of e-commerce that is often overlooked is how to create affiliations between one's e-business and other resource partners. Partnerships not only drive traffic between web sites, they also create customer affinity between a particular e-business and other respected organizations. Partners share content that benefits on-line users by supplementing each web site's on-line offerings.

For example, we at EqualFooting partnered with SCORE, the Service Corps of Retired Executives, to add value to our customers' experience. SCORE agreed to offer its on-line business counseling program to customers on our site. This is value-added to our small business customers who come to our site for procurement and financing needs, and find other reasons to stay.

Mr. Chairman, I hope that I have provided some insight into the dynamics of the buy- and sell-sides of B2B e-commerce, and into some of the exciting new opportunities in the B2B world, such as e-marketplaces. EqualFooting.com is constantly striving to meet the needs of small businesses as they brave the e-frontier. We look forward to working alongside this Committee to ensure that small businesses stay at the

forefront of the B2B e-revolution that is changing the face of business today.

Thank you.

Chairman BOND. Thank you very much, Ms. Kim. It is really exciting to know what you are doing and I will remember that when I am looking for AA batteries. That is something I can understand. I am technologically challenged, but even I understand AA batteries.

Now for one of our technological experts I now turn for comments and the introduction to my good friend, a fellow Missourian and the Senator from Montana, the chairman of the Communications Subcommittee of the Committee on Commerce, Science, and Transportation, Senator Conrad Burns. I will ask Senator Burns to moderate as long as he can and then we are going to ask Marc Freedman from my staff and Damon Dozier from Senator Kerry's staff to serve as moderators.

But I will return after a few meetings and a few of the other things that I have to do today. But now it is a pleasure—with fear and trepidation I turn it over to Senator Burns.

[Laughter.]

Chairman BOND. Strap on your seatbelts, we are——

Senator BURNS. The only reason I came is, I just wanted to counter the good Senator from Missouri's statement on how nice Kansas City is in June.

Chairman BOND. Actually there are 2 weeks in June when Montana is nice, or is it a week in June and a week in September?

Senator BURNS. If summer comes on Sunday, we go fishing.

[Laughter.]

OPENING STATEMENT OF THE HONORABLE CONRAD BURNS, A UNITED STATES SENATOR FROM MONTANA

Senator BURNS. Thank you, Senator Bond, and thank you for these—this is the second of this series that I have been on a forum discussion as far as e-commerce is concerned. We have seen this industry grow since the first day I walked into the Senate back in 1989.

I want to just make a couple of comments as I have a bill on the Floor that I am managing. I am setting a new record for military construction. Usually we pass military construction appropriations in about 1½ hour. Now we have been on it for 4 days, for some strange reason that I will not iterate here.

I was interested in both the comments of Mr. Villars and Ms. Kim with regard to the Internet and the challenges that we see. We have seen a virtual explosion in communications—the digital divide, Ms. Kim, is not only corporate. We talk about the digital divide between small and large communities, the trunks, and finally the fiber and the amount of broadband and high-speed services that are available in not-so-densely populated areas of our country.

The only reason I became interested in this situation is being from Montana, we had to find a way to build an infrastructure in which we could compete on a national and international basis. We can do that with a modem.

But also we have a digital divide between our ears. In this Congress we do not have a lot of folks that are actual members that are even computer literate. I do not go anywhere without a computer. I was very fortunate because I have a couple of very bright kids and, of course, they taught me how to use my computer. I used

to think if you hit the wrong key, the darned thing would blow up. That is not the case. I found out a computer is more like a mule, you cannot make it do what it does not want to do.

But I want to bring up some challenges that we have before we can really see the Internet really hit its full potential as a marketing and as a purchasing tool. Right now, we have in conference the e-signature bill. Mr. Villars, you touched on that issue, privacy. We have privacy now and we have our bill ready to go we think, but we still have some challenges ahead in how people look at the privacy area.

Also in safety and security. Whenever we start talking about financial, and we are doing business that deals with some very sensitive information, questions arise. Do I have the encryption? Is my conduit or my message encrypted to a way where when I receive a message from you it is as I have written it? Has it not been read by anybody else, nor altered by anybody else? Then when you respond to me I can have the same assurance.

What I am saying here is safety, security, and privacy are still areas of great challenge and until we have full confidence that these areas have been properly dealt with, we will continue to see a reluctance from quite a few people to use this tool.

You are right, Mr. Villars, I am an old peddler. I am an auctioneer. I have been a salesman all my life. I dearly love it. I have people come into my office and apply for a job and they say, we just do not want to sell. And I say, if you do not want to sell, you are not going to work here because you are not selling yourself very good either.

We are all salesmen in this great country where our economy and our actual economic freedoms are based on the knowledge that nothing happens until a sale is made. That is wonderful. The United States is the only country in the world where that really applies. Of course, economic security and political security all go hand in hand.

But there is a relationship with the customer. You and I, have been doing business a long time. I am always reminded of a story of a good friend of mine that lived in Little Rock, Arkansas. This man had a very bad speech impediment. He stuttered terribly, but he was still one of the top salesmen for the 3M Company. He would try to sell me stuff and he would say, "Conrad, you do what you do best and that is buy. And I do what I do best and that is sell."

Now in the area of women- and minority-owned businesses, of which this Small Business Committee is very aware, we have played a part in the development to make sure that we had equal footing for everyone. The Internet tells us that these days are over and if you had the product and the imagination it would not make any difference whether those differences go away. We do not know that yet. But until then, until we find that out, we are very, very aware and very sensitive to minority- and women-owned businesses. So there are still a lot of challenges.

We want to welcome NetCompliance, John Dominic from Bozeman, Montana. I have known John ever since the Dead Sea was just sick.

[Laughter.]

Mr. DOMINIC. And that is because we were trying to get a couple of boats from Methusaleh and his dad.

Senator BURNS. That is exactly right. What we have seen through this whole evolution—and it has been marvelous as far as I am concerned—is that if we do not tax and if we let it run free, imagination, entrepreneurialship, and the American imagination becomes the most wonderful, powerful machine in America. We have seen that happen right before our own eyes. That is the reason we lead the rest of the world. We are very competitive at home, which makes us very competitive in the international market. I believe that with all my soul. I really do. We have seen just marvelous advances being made.

Now I am going to turn it over to this man right here, Marc, because I have to go to manage a bill on the Floor. We have to talk about Kosovo, but I would rather talk about America and American entrepreneurialship. But just remember, the digital divide is between our ears, and it is right here. This is not the center of the universe. I mean, America is doing wonderful without us. Just get out of the way, turn it loose, and it will happen.

We want to welcome all of you here today. I will be listening to what all of you have to say. Good to see you, Floyd. Everything is all right in St. Louis, I assume.

Mr. GAIBLER. No. They are all moving to Washington, D.C.

Senator BURNS. That is just terrible. There are several friends around the table that we have a relationship with, so I thank you all for coming.

Mr. Krishnan, I guess I am cutting right into your time and I am sorry about that. John, good to see you. I will go and manage my bill, if I can. It is all yours.

Mr. FREEDMAN. Thank you, Senator Burns. I would just like to introduce Krish Krishnan, our last speaker. He is the president and CEO of NetCompliance, Inc., a Seattle, Washington-based Internet information commerce company. NetCompliance allows businesses to be in compliance with the myriad State, and Federal regulations via the Internet. Its e-comply technology helps companies keep track of regulatory details and provides web-based training by employee, location, and hazardous condition.

Mr. Krishnan's experiences in environmental, regulatory compliance, and information technology are well suited to NetCompliance's mission. Mr. Krishnan, nice to have you today. Please proceed.

STATEMENT OF KRISH R. KRISHNAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NETCOMPLIANCE, INC., SEATTLE, WASHINGTON

Mr. KRISHNAN. Thank you. Mr. Chairman, Senator Burns, and Members of the Committee, I first wanted to thank you all for inviting me here to testify before the Small Business Committee. It is indeed a great honor. I am, again, Krish R. Krishnan, president and CEO of NetCompliance, Inc., a Seattle, Washington-based Internet information commerce company. We have other offices in the State of Washington, in Vancouver, Washington, Kennewick, Washington, and satellite offices in Houston, Texas, in Washington,

D.C., and a couple of offices in Canada, and a presence on the Indian subcontinent as well.

Using the Internet, NetCompliance's e-comply technology provides the platform for businesses, both large and small, to be in compliance with a variety of State and Federal and local regulations and standards. Later on in the presentation I will talk about how we use the web in an innovative manner to deliver appropriate knowledge and information to small businesses, large businesses, in a manner which is clearly faster, cheaper, and better.

Mr. Chairman, the Internet now has a profound impact on all our lives. Today new companies and technologies have emerged helping to create e-marketplaces, business-to-business functions of various types which indeed, in comparison to the old economy companies, are faster, cheaper and better. We believe in particular at NetCompliance that businesses both large and small are seeking to use the Internet to manage other complex needs of the business, and in effect trying to extend the e-frontier to functions such as compliance management.

This business potential is huge as business to business electronic commerce is clearly spreading rapidly from larger businesses to small businesses today. With all this explosion in the Internet-related growth areas I think one area where new technology is desperately needed is in the area of compliance. Compliance with Federal regulations, compliance with State regulations, local regulations, and standards.

I must just point out here that the impact of regulatory compliance on businesses, particularly small businesses is staggering. The annual cost to American businesses for complying with a variety of regulations has been estimated by Hambrecht & Quist in 1999 to be an astounding $45 billion, and 319 million manhours. In particular, just for EPA-mandated business alone, businesses spend a total of 116 million manhours. As another example, the General Accounting Office estimated that the business burden for complying with lead and asbestos regulation alone is $1 billion.

We were talking about the industry survey conducted by Deloitte and Touche where they surveyed Fortune 500 CEOs. I am sure, had Deloitte and Touche approached small businesses, compliance management as an issue would have ranked as high if not a higher priority among small businesses.

I think the future of Federal and State regulatory activity promises to present more challenges to businesses. We would like to submit for the record here, and I hold in my hand—I probably need both my hands for this—the Unified Agenda of Federal Regulatory and Deregulatory Actions. A copy of this was published in April of this year. This calendar, which is published twice yearly, describes 4,441 rules that the Government is right now considering. Incidentally, this is a biannual report for 6 months.

I find in particular very sobering the fact that the agenda on what this is about starts at page 22,483 and ends over 1,600 pages later. I think if this document is going to be an indicator of future regulatory challenges, I think definitely there is a crying need for bringing some efficiencies to the table to address such issues, and NetCompliance's primary mission is to try to utilize the Internet to address such efficiencies.

We certainly believe that this all-important area can be addressed, and small businesses can address it better, cheaper, and faster by appropriately using the efficiencies of the Internet as a delivery platform. Indeed, we consider ourselves, NetCompliance, to be an information commerce company. We believe giving customized, relevant, topical, and timely information across the Internet is in many ways as relevant, if not a more relevant use, of the Internet where we can send this knowledge and information via the wires.

To be sure, the regulatory impact differs for various types of business. Fortune 1,000 businesses certainly are cognizant of this problem. They happen to have large in-house staffs. They end up having the budget to go out and hire consultants and attorneys to help meet such needs. For smaller businesses however, it is more of a desperate need where clearly small businesses either do not have the information access to realize what regulatory burdens they are facing, or quite clearly cannot afford to pay for high-priced consultants and attorneys.

I think the Internet right now offers us unique opportunities to comply with regulations in a different way and at NetCompliance, I am proud to say, we have created an innovative method to deliver education, training, compliance, and information to American businesses. Simply put, NetCompliance through our e-comply engine offers companies the ability to meet the regulations using this integrated information commerce suite.

Let me move on and actually give you an example, a tangible example of how we use the Internet to help solve problems for small businesses in particular. In our main web site you will have noticed there are a lot of different compliance sites we have. I would like to take some time and talk about one particular example, GasStationCompliance.com. I would like to submit for the record here the Seattle Times business story of Thursday, April 6, 2000 entitled, "It's Still Red Tape, But It Comes By PC."

The story highlights Frank Rosendale, an owner of gasoline stations in suburban Seattle. Frank is a client of the GasStationCompliance.com which helps convenience store and gas station owners with EPA and OSHA compliance. This is a very important area of compliance, particularly among small businesses.

There are a lot of gas stations, in fact there are over 180,000 gas stations in the United States alone and many of them, in fact the overwhelming majority of them, tend to be small businesses. They have to comply with costly health and safety rules and offer their workers training and education, not just to do with hazardous materials and EPA and OSHA rules, but also in the areas such as not to sell tobacco or alcohol to minors.

The Seattle Times reported, that every month GasStationCompliance.com sorts through newly-passed regulations, new rules on how to store toxic cleansers, for example, and sends the ones that apply to Rosendale's gas stations to his online account. The regulations are also stored on his online account so should an agency ever inspect his workplace Rosendale has all the necessary paperwork filed online.

Before it was a monster to get responses, Rosendale said. It took him forever to do all the stuff. Instead of scheduling offsite training

sessions that cost about $100 an employee his workers can do it on the gas station's PC using the NetCompliance site. The total bill, $39 a month.

Small businesses through some of our other sites such as MSDSCompliance.com have the ability to find and organize material safety data sheets, or MSDS's, from among the over 16 million that are required by State and Federal laws. Our proprietary system allows clients to search their data bases, create and build a customized file folder of only those MSDS's of interest to a particular client.

The pages are in text format which makes for quick retrieval and there is no need to download any special programs or conversion devices. And the folder resides on our main server, NetCompliance's main server, which means literally this can be accessed from anywhere, anyplace.

Mr. Chairman, the power of the Internet is bringing small businesses the opportunities to reduce costs and remain competitive in the global marketplace. Certainly we feel another area where it is very relevant is in the training area. Our TrainingCompliance.com site has about 100 online training courses which help train business owners without them needing consultants or offsite training sessions.

Mr. Chairman, to make B2B commerce an emerging e-frontier for small businesses, NetCompliance believes that Congress must give businesses the option of complying with the regulatory requirements via the Internet. Legislation which would allow the option of switching from filing paper copies to using the web to file virtual compliance solutions would be extremely helpful to small businesses seeking a better, cheaper, and faster compliance method. Small businesses in America need every benefit of the doubt from the regulators if they are to compete fairly in the global economy alongside businesses from foreign countries which do not impose the same regulatory burdens like we do.

In closing, Mr. Chairman, let me point out to the Committee that an anniversary recently passed with little notice. The Occupational Safety and Health Administration opened their doors 29 years ago on April 28. When these operations began little did regulators envision that in the new economy companies would want to comply with the Federal laws via the Internet.

Mr. Chairman, Members of the Committee, NetCompliance is poised to contribute to this regulatory compliance revolution. And on a personal note I would like to thank Senator Burns from Montana for inviting us to be part of the advisory committee of the Congressional Internet Caucus. We certainly look forward to working with the advisory committee and with this Committee to help promote the Internet's use in this all important area.

That concludes my remarks. Thank you.

[The prepared statement of Mr. Krishnan follows:]

TESTIMONY OF KRISH R. KRISHNAN,
PRESIDENT & CEO, NETCOMPLIANCE, INC.,
BEFORE THE SENATE SMALL BUSINESS COMMITTEE,
MAY 18TH, 2000

Mr. Chairman and members of the Committee, I want to thank you for asking me to testify here today about the Internet and the emerging B2B E-Frontier for small business.

My name is Krish R. Krishnan, and I am president & CEO, of NetCompliance, Inc., a Seattle, Washington-based Internet information commerce company, with offices in Seattle and Vancouver Washington, satellite offices in other parts of the United States such as Houston and Washington, DC, and in Vancouver, British Columbia and the Indian subcontinent. And I am happy to report to the Committee, particularly Senator Burns, that because of the growth of our company, we will soon be opening up an office in Bozeman, Montana, as well as other locations across the country.

Using the Internet, NetCompliance's eComply™ technology provides the platform for businesses to be in compliance with a variety of state and federal regulations and standards. Later in my presentation, I will briefly detail how we deliver knowledge and information to clients through the Web, which is better, cheaper and faster than current methods of delivery.

Mr. Chairman, the Internet now has a profound impact on all of our lives. Originally, people just used the various search engines on the Web to research useful information. Eventually, those search engines lead consumers to e-commerce portals, where users were not only able to find useful information, but also associated products and services. Today, new companies and technologies have emerged, helping to create e-marketplaces and business-to-business functions that are shaping the future of information

technology which is indeed, better, cheaper and faster than "old economy" approaches. Quite simply, the Internet provides a relatively low cost and widely dispersed communication, collaboration, storage and data transmission platform. And we believe that businesses – both large and small -- are seeking to use the Internet to manage complex business processes, such as compliance management, which is an emerging E-Frontier.

The business potential is huge, as business-to-business electronic commerce is rapidly spreading from large, high technology firms to small companies and other industries. Goldman Sachs believes that small business will be a major driver of B2B electronic commerce, growing from its 1999 levels of $114 billion to $1.5 trillion in five years. Goldman Sachs also estimates that the primary industries for growth in the next five years are computer hardware and software, aerospace/defense, electronics, chemicals, motor vehicles and parts, medical equipment and transportation. Many of these are small businesses that employ the vast majority of all workers in America today.

With this explosion in Internet-related growth, one area where new technology is desperately needed is the area of compliance with federal, state, and local regulations and standards. The impact of regulatory compliance on all businesses – but particularly small businesses – is staggering.

The annual cost to American business of complying with a myriad of regulations has been estimated by Hambrecht & Quist in 1999 at an astonishing $45 billion and 390 million man-hours. The US Office of Management and Budget estimates that businesses in 1997 spend 116 million man-hours on record keeping and reporting requirements for the Environmental Protection Agency alone. And for that same year, the General Accounting Office estimates the business burden for compliance with asbestos and lead regulations at $1 billion.

I am also sure that had Deloitte and Touche asked them, small business owners would have ranked federal and state regulatory requirements even higher for them than the Fortune 500 CEOs ranked it.

And the future of federal regulatory activity promises more of the same compliance requirements and paperwork. I hold in my hand and would like to submit for the record a copy of the "Unified Agenda of Federal Regulatory and Deregulatory Actions" that was published in the Federal Register on April 24, 2000. This calendar, which is published twice yearly, describes 4,441 government rulemaking actions under development or recently completed within the latest twelve months. Incidentally, I find most sobering the fact that the Agenda begins on page 22,483 and ends two thousand pages later! If this document is indeed an indicator of future regulations, then imagine the difficulties faced by small businesses trying to keep up with rapidly changing regulations and why these businesses are looking for better, cheaper and faster solutions.

To be sure, this regulatory environment and its potential legal responsibility impacts American business differently. In the broadest view, Fortune 1000 companies generally have in-house expertise or large budgets to handle the increasing workloads and complex rules. However, for small businesses, there is generally no dedicated in-house expertise, so compliance is a responsibility added to someone else's duties. The main concern for all businessmen, both large and small, is how to manage certain risks, and protect workers, the community and the environment, and do it all in a responsible and cost-effective manner.

The Internet is now offering an opportunity to comply with regulations in a different way. NetCompliance has created an innovative method to deliver education, training, compliance and information to American businesses. Simply put, NetCompliance,

through its eComply™ engine, offers companies the ability to comply with regulations using an integrated information commerce suite of compliance and training modules delivered by the Internet.

This all sounds very impressive, but what is the practical application of Internet-based regulatory compliance in the real world?

Let me give you an example as to how small businesses benefit from our proprietary technology. From our main Web site, www.netcompliance.com, you'll note many different compliance links, such as msdscompliance.com, trainingcompliance.com, compliancemall.com, and gasstationcompliance.com. It is this last web site which I would like to detail for you.

I would like to submit for the record the Seattle Times business story of Thursday, April 6th, 2000, entitled, "It's still red tape, but it comes by PC." The story highlights Frank Rosendale, an owner of gasoline stations in suburban Seattle. Frank is a client of one of our small business web sites, gasstationcompliance.com, which helps convenience store and gas station owners with EPA and OSHA compliance. This is a particularly important area of compliance, for there are over 180,000 gasoline stations in America. Many of these are small businesses, and all must comply with costly health and safety rules and offer their workers training and education, from handling hazardous materials, to not selling tobacco and alcohol to underage minors.

The Seattle Times reported:

"Every month, GasStationCompliance.com sorts through newly passed regulations – new rules on how to store toxic cleansers, for example – and sends the ones that apply to Rosendale's gas stations to his online account. The regulations are also stored on his online account, so should an agency ever inspect his workplace,

Rosendale has all the necessary paperwork filed online. `Before, it was a monster to find or get responses,' he (Rosendale) said. `It took us forever to do all (of) this stuff.' Instead of scheduling off-site training sessions that were costing about $100 an employee, his workers can do it on the gas station's PC using NetCompliance. The total bill: $39 a month."

Small businesses, through msdscompliance.com, have the ability to find and organize Material Safety Data Sheets (MSDS) from among the approximately 16 million required by state and federal laws. The proprietary system allows clients to search our databases and create and build a customized file of only those MSDS' of interest to them. The pages are in text format, which makes for quick retrieval, and there is no need to download special readers or conversion programs. And the folder resides on NetCompliance's main server, meaning it is accessible anytime from anywhere.

The Emerging E-Frontier for small businesses is also seeing an increase in on-line training. In fact, the "Training Industry Report" estimates that training via the Internet increased from 8 percent in 1998 to 13 percent last year. NetCompliance's almost 100 on-line training modules provide documentation as to which employees took what training and when that training occurred. The self-paced interactive lessons include animation, narration and quizzes, which help increase employee retention and are delivered to businesses via the Internet. On-line training represents yet another way small and large businesses can reduce the cost of their compliance.

Mr. Chairman, the power of the Internet is bringing small American businesses the opportunity to reduce costs and remain competitive in the global marketplace. So confident are we of the potential of compliance via the Internet, that NetCompliance owns "domains" and is currently developing content for over 150 industry-specific segments in areas ranging from autos, electrical,

food, and construction, to hotels, laboratories, malls, pesticides and utilities, among others.

Mr. Chairman, to make B2B commerce an emerging "E-Frontier for small business", NetCompliance believes that the Congress must give businesses the option of complying with regulatory requirements via the Internet. Legislation, which would allow the option of switching from filing paper copies to using the Web to file "virtual" compliance solutions, would be extremely helpful to small businesses seeking a better, cheaper, and faster compliance method. Small businesses in America need every benefit of the doubt from regulators if they are to compete fairly in the global economy along side businesses from foreign countries, which don't impose the same regulatory burdens as we do.

In closing, Mr. Chairman, let me point out to the Committee that an anniversary recently passed with little notice. The Occupational Safety and Health Administration (OSHA) opened its doors 29 years ago this past April 28th. When OSHA began operation those 29 years ago, little did regulators envision that in the "New Economy", companies would want to comply with federal laws via the Internet.

Mr. Chairman and members of the Committee, NetCompliance is poised to contribute to this regulatory compliance revolution. And on a personal note, I would like to take a moment to thank Senator Burns of Montana for inviting us to be part of the Advisory Committee of the Congressional Internet Caucus. I look forward to working with the Senator and the rest of the Caucus to promote the Internet's technology and facilitate its use, especially in the areas of compliance with federal laws.

Mr. Chairman, that concludes my remarks and I would be happy to answer any questions of the Committee. Thank you.

"Compliance management ranks as among the most critical issues with Fortune 500 CEOs"

Deloitte & Touche, 1999

COST OF COMPLIANCE

Annual cost to American business of complying with various regulations: $45 billion and 390 million man-hours
Hambrecht & Quist (1999)

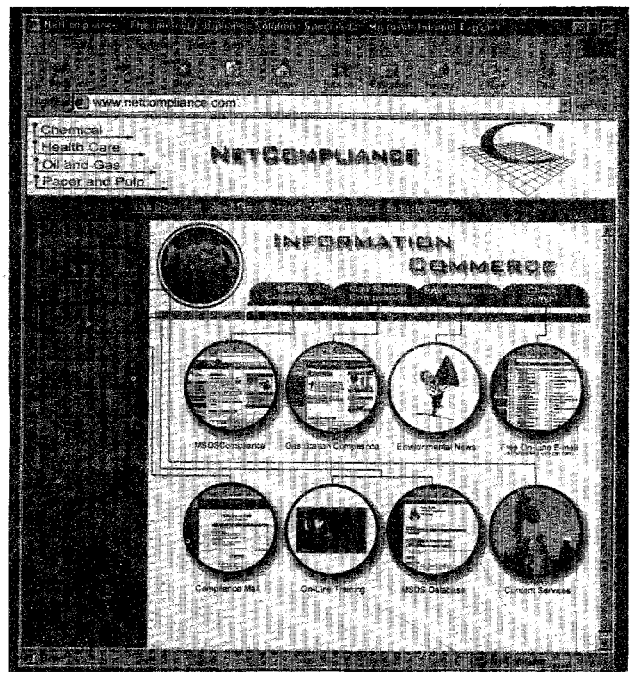
*****

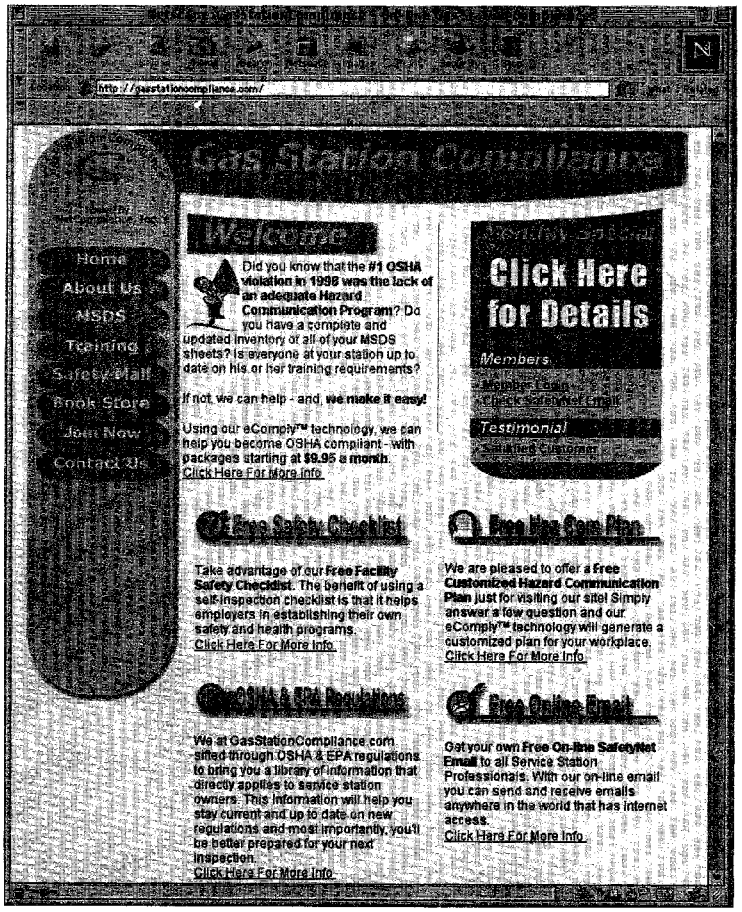
EPA mandated business hours spent on record keeping and reporting: 116 million
US Office of Management and Budget (1997)

*****

Business burden for complying with asbestos and lead regulations: $1 billion
US General Accounting Office (1977)

NETCOMPLIANCE, INC.

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If not, we can help - and, we make it easy!
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BUSINESS

THE SEATTLE TIMES **SECTION C** THURSDAY, APRIL 6, 2000

MIKE SIEGEL / THE SEATTLE TIMES

Frank Rosendale, *who owns this Unocal 76 station off Interstate 90 in Issaquah and two others, says Netcompliance has spared him hours of aggravation and hundreds of dollars in employee-training costs.*

It's still red tape, but it comes by PC

◆ ONCE small businesses needed a paid consultant or the patience of Job to sort through the rules and regulations affecting them. Now Netcompliance offers an alternative: All the appropriate paperwork, delivered via e-mail.

BY SHARON PIAN CHAN
Seattle Times business reporter

NetCompliance is programmed to eliminate people. Compliance consultants, specifically.

The Seattle-based company helps businesses — from the laundry on the corner to Arco — comply with environmental, health, safety and market regulations using Internet-based software. In the business-to-business e-commerce construction boom, traditional business services also are rushing to build an online office of their own.

In the Old Economy, NetCompliance would have been a bricks-and-mortals company, sending people to workplaces to advise companies. But in the world NetCompliance envisions, software will replace the consultant.

Almost all companies are subject to government regulation. Even a Dunkin' Donuts has to answer to the state Department of Ecology, city zoning departments, the Occupational Safety and Health Administration and a host of other agencies.

Last year, the annual business cost of Environmental Protection Agency (EPA) regulatory submissions alone was $5 billion, a Hambrecht & Quist report says. If you don't comply, the cost is substantial. The EPA recorded $3.6 billion in penal-

PLEASE SEE **NetCompliance** ON C 3

'Consultant killer' goes after paperwork market

NETCOMPLIANCE

CONTINUED FROM C 1

ties last year.

Traditionally, companies have hired consultants and training experts. NetCompliance instead uses software to manage the paperwork, delivering it over the Internet and storing the records online.

"Our quest is to be the consultant killer," said co-founder Krish Krishnan.

To that end, it registered 135 domain names last month, including *www.cafeteriacompliance.com*, *www.autobodycompliance.com*, *www.poolsupplycompliance.com*.

The company also builds training software so that employees can train on-site instead of having to schedule companywide training sessions.

Similar programs are being developed by competitors: Seattle-based AdvanceOnline scored $7 million in venture capital in February, and international firm Environmental Resources Management also launched a site.

The third prong of NetCompliance's business is to open a green business-to-business e-marketplace. Last month, it announced a five-year, $100 million contract to develop and manage a site for Kafus Industries, which produces pulp and paper from sustainable resources.

Krishnan and Lloyd Andrews, the chairman, started the company in October 1998. The company has grown to 75 employees in offices in Seattle; the two Vancouvers; Kennewick; Houston; Washington, D.C.; and Nepal.

GasStationCompliance.com was launched a month ago.

Frank Rosendale, who owns three Unocal 76 stations in Issaquah and Vancouver, Wash., started using the site in February. Every month, GasStationCompliance.com sorts through newly passed regulations — new rules on how to store toxic cleansers, for example — and sends the ones that apply to Rosendale's gas stations to his online account. The regulations also are stored on his online account, so should an agency ever inspect his workplace, Rosendale has all the necessary paperwork filed online.

"Before, it was a monster to find or get responses," he said. "It took us forever to do all this stuff."

Instead of scheduling off-site training sessions that were costing about $100 an employee, his workers can do it on the gas station's PC using NetCompliance. The total bill: $39 a month.

"There are so many small-business operators out there that need regulatory assistance," said Madeline Sten, executive director of the Pacific Northwest Pollution Prevention Resource Center, a nonprofit group that helps businesses become more environmentally friendly. "Right now their alternative is to read volumes or access technical-assistance operators.

"But the fear is that those operators are associated with agencies, and they're afraid they'll be hit with enforcement actions. NetCompliance might be a viable alternative."

But are human consultants expendable? The Internet has proved shoppers can survive without a live person to bag their books, but compliance is trickier.

Industrial hygienist Michael Smith doesn't care how smart the software is. A former supervisor at the Department of Labor, he does compliance consulting for Engineering Health and Safety International at its Bellevue office.

"You'll never eliminate the human component because you have to go to the workplace," Smith said. "You have to take air samples, interview workers, talk to management. How are you ever going to do that through a software program?"

Krishnan said his "neural network" software uses artificial intelligence to sort through company information the same way a consultant does.

"I used to be a consultant," he said. "It's cut and paste. You cut off the logo, replace it with another report you've written, and you have the bulk of a report."

Small Business/Charts/ Compliance Charts 5/12/00 2:30

SAMPLE NETCOMPLIANCE INDUSTRY-SPECIFIC SEGMENTS

asbestoscompliance.com	**autobodycompliance.com**
cafeteriacompliance.com	**cleaningcompliance.com**
constructioncompliance.com	**electricalcompliance.com**
firesafetycompliance.com	**hotelcompliance.com**
laboratorycompliance.com	**leadcompliance.com**
nurserycompliance.com	**pesticidecompliance.com**
printshopcompliance.com	**truckstopcompliance.com**

Federal Register

Monday,
April 24, 2000

Part II

Regulatory Information Service Center

Introduction to the Unified Agenda of Federal Regulatory and Deregulatory Actions

Federal Register / Vol. 65, No. 79 / Monday, April 24, 2000 / Unified Agenda

REGULATORY INFORMATION SERVICE CENTER

Introduction to the Unified Agenda of Federal Regulatory and Deregulatory Actions

AGENCY: Regulatory Information Service Center.

ACTION: Introduction to the Unified Agenda of Federal Regulatory and Deregulatory Actions.

SUMMARY: The Regulatory Flexibility Act requires that agencies publish semiannual regulatory agendas describing regulatory actions they are developing (5 U.S.C. 602). Executive Order 12866 "Regulatory Planning and Review" (58 FR 51735; October 4, 1993) and Office of Management and Budget memoranda implementing section 4 of that Order establish minimum standards for agencies' agendas, including specific types of information for each entry.

The Unified Agenda helps agencies fulfill all of these requirements. All Federal regulatory agencies have chosen to publish their regulatory agendas as part of this publication.

Section 4 of Executive Order 12866 also directs that, as part of their submissions to the October edition of the Unified Agenda, agencies prepare a regulatory plan of the most important significant regulatory actions that the agency reasonably expects to issue in proposed or final form during the upcoming fiscal year. The agency plans appear only as part of the October publication. They are not included in the April publication.

The following separate parts in this issue of the **Federal Register** are the agency agendas, followed by indexes to the entries. Together, these comprise the April 2000 edition of the semiannual Unified Agenda. We welcome your comments on this publication and your suggestions for improving future ones.

ADDRESSES: Regulatory Information Service Center (MI), General Services Administration, 1800 F Street NW., Suite 3039, Washington, DC 20405.

Electronic Availability

All editions of the **Unified Agenda of Federal Regulatory and Deregulatory Actions** and **The Regulatory Plan** since October 1995 are available in electronic form. You can search the Agenda and the Plan on the World Wide Web at:

http//reginfo.gov

You may also search the Agenda and the Plan on the Government Printing Office's GPO Access, which is accessible through:

http//www.access.gpo.gov

FOR FURTHER INFORMATION CONTACT: For further information about specific regulatory actions, please refer to the Agency Contact listed for each entry.

To provide comment on or to obtain further information about this publication, contact: Cynthia M. Warner, Acting Executive Director, Regulatory Information Service Center (MI), General Services Administration, 1800 F Street NW., Suite 3039, Washington, DC 20405, (202) 482-7340. You may also send comments to us by e-mail at:

RISC@gsa.gov

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INTRODUCTION TO THE UNIFIED AGENDA OF FEDERAL REGULATORY AND DEREGULATORY ACTIONS

I. What Is the Unified Agenda?

The **Unified Agenda of Federal Regulatory and Deregulatory Actions** (Unified Agenda) provides information, in a uniform format, about regulations that the Government is considering or reviewing. The Unified Agenda has appeared in the **Federal Register** twice each year since 1983. This edition includes regulatory agendas from 60 Federal departments and agencies. Agencies of the United States Congress are not included.

The **Regulatory Plan**, required under Executive Order 12866, is part of the October edition of the Unified Agenda. The Plan provides additional information about the most important significant regulatory actions that agencies reasonably expect to issue in proposed or final form during the upcoming fiscal year.

The Regulatory Information Service Center (the Center) compiles the Unified Agenda for the Office of Information and Regulatory Affairs (OIRA), part of the Office of Management and Budget. OIRA is responsible for overseeing the Federal Government's regulatory, paperwork, and information resource management activities, including implementation of E.O. 12866. The Center also provides information about Federal regulatory activity to the President and his Executive Office, the Congress, agency managers, and the public.

The activities included in the Agenda are, in general, those that will have a regulatory action within the next 12 months. Agencies may include activities that will have a longer timeframe than 12 months. Agency agendas also show actions or reviews completed or withdrawn since the last agenda. The agendas do not contain regulations that were excluded under Executive Order 12866, such as those concerning military or foreign affairs functions or regulations related to agency organization, management, or personnel matters.

A. What Are the Limitations of the Information?

Agencies prepared entries for this publication to give the public notice of their plans to review, propose, and issue regulations. They have tried to predict their activities over the next 12 months as accurately as possible, but dates and schedules are subject to change. Agencies may withdraw some of the regulations now under development, and they may issue or propose other regulations not included in their agendas. Agency actions in the rulemaking process may occur before or after the dates they have listed.

The Unified Agenda does not create a legal obligation on agencies to adhere to schedules within it or to confine their regulatory activities to those regulations that appear in this publication. The information in this edition is accurate as of April 1, 2000, in the judgment of the submitting agencies, except as otherwise noted by the agencies. In addition, some agencies submitted updates after that date.

Where applicable, individual actions will be subject to review for compliance with applicable Executive orders, the Regulatory Flexibility Act, and the Paperwork Reduction Act at appropriate points in the regulatory process.

II. Why Is the Unified Agenda Published?

The Unified Agenda helps agencies comply with their obligations under the Regulatory Flexibility Act and various Executive orders and other statutes.

Regulatory Flexibility Act

The *Regulatory Flexibility Act* requires agencies to identify those rules that may have a significant economic impact on a substantial number of small entities (5 U.S.C. 602). Agencies meet that requirement by including the information in their submissions for the Unified Agenda. Agencies may also indicate those regulations that they are reviewing as part of their periodic review of existing rules under the Regulatory Flexibility Act (5 U.S.C. 610).

Executive Order 12866

Executive Order 12866 entitled "Regulatory Planning and Review" (September 30, 1993; 58 FR 51735) requires covered agencies to prepare an agenda of all regulations under development or review. The Order also requires that certain agencies prepare annually a regulatory plan of their "most important significant regulatory actions," which appears as part of the October Unified Agenda.

Executive Order 13132

Executive Order 13132 entitled "Federalism" (August 4, 1999; 64 FR 43255) directs agencies to have an accountable process to ensure meaningful and timely input by State and local officials in the development of regulatory policies that have "federalism implications" as defined in the Order. Under the Order, an agency that is proposing regulations with federalism implications, which either preempt State law or impose nonstatutory unfunded substantial direct compliance costs on State and local governments, must consult with State and local officials early in the process of developing the regulation. In addition, the agency must provide to the Director of the Office of Management and Budget a federalism summary impact statement for such regulations, which consists of a description of the extent of the agency's prior consultation with State and local officials, a summary of their concerns and the agency's position supporting the need to issue the regulation, and a statement of the extent to which those concerns have been met. As par of this effort, agencies include in their submissions for the Unified Agenda information on whether their regulatory actions may have an effect on the various levels of government and whether those actions have federalism implications.

Unfunded Mandates Reform Act of 1995

The *Unfunded Mandates Reform Act of 1995* (P.L. 104-4, title II) requires agencies to prepare written assessments of the costs and benefits of significant regulatory actions "that may result in the expenditure by State, local, and tribal governments, in the aggregate, or by the private sector, of $100,000,000 or more . . . in any 1 year . . . ." The requirement does not apply to independent regulatory agencies, nor does it apply to certain subject areas excluded by section 4 of the Act. Affected agencies identify in the Unified Agenda those regulatory actions they believe are subject to title II of the Act.

Small Business Regulatory Enforcement Fairness Act

The *Small Business Regulatory Enforcement Fairness Act* (P.L. 104-121, title II) established a procedure for congressional review of rules (5 U.S.C. 801 et seq.), which defers, unless exempted, the effective date of a "major" rule for at least 60 days from the publication of the final rule in the **Federal Register**. The Act specifies that a rule is "major" if it has resulted or is likely to result in an annual effect on the economy of $100 million or more or meets other criteria specified in that Act. If the issuing agency believes that a rule may be major, it indicates this under the "Priority" heading of the entry. The Act provides that the Administrator of OIRA will make the final determination as to whether a rule is major.

III. How Is the Unified Agenda Organized?

Each agency's agenda appears as a separate part in this edition of the **Federal Register**. The parts of the Unified Agenda are organized alphabetically in four groups: Cabinet departments; other executive agencies; the Federal Acquisition Regulation, a joint authority; and independent regulatory agencies. Departments may in turn be divided into subagencies.

Each department or agency introduces its part of the Agenda with a preamble providing information specific to that part. For each agency that requests it, the Center provides a table of contents that appears in the Agenda after the agency preamble.

Each agency presents its entries under one of five headings according to the rulemaking stage of the entry. The stages are:

1. *Prerule Stage* — actions agencies will undertake to determine whether or how to initiate rulemaking. Such actions occur prior to a Notice of Proposed Rulemaking (NPRM) and may include Advance Notices of Proposed Rulemaking (ANPRMs) and reviews of existing regulations.

2. *Proposed Rule Stage* — actions for which agencies plan to publish a Notice of Proposed Rulemaking as the next step in their rulemaking process or for which the closing date of the NPRM Comment Period is the next step.

3. *Final Rule Stage* — actions for which agencies plan to publish a final rule or an interim final rule or to take other final action as the next step in their rulemaking process.

4. *Long-Term Actions* — items under development but for which the agency does not expect to have a regulatory action within the 12 months after publication of this edition of the Unified Agenda. Some of the entries in this section may contain abbreviated information.

5. *Completed Actions* — actions or reviews the agency has completed or withdrawn since publishing its last agenda. This section also includes items the agency began and completed between issues of the Agenda.

An agency may use subheadings to identify regulations that it has grouped according to particular topics. When these subheadings are used, they appear above the title of the first regulation in each group.

A bullet (•) preceding an entry indicates that the entry appears in this publication for the first time.

All entries are numbered sequentially from the beginning to the end of the Unified Agenda. The sequence number preceding the title of each entry identifies the location of the entry in this edition. The same number is used in the indexes to enable readers to find entries on specific subjects.

This publication contains six indexes. Index A lists entries for which agencies have indicated that they are conducting a periodic review under section 610(c) of the Regulatory Flexibility Act. Index B lists the regulatory actions for which agencies believe that the Regulatory Flexibility Act may require a Regulatory Flexibility Analysis. Index C lists additional regulatory actions for which agencies have chosen to indicate that some impact on small entities is likely even though a Regulatory Flexibility Analysis may not be required. Index D lists entries that agencies believe may have effects on levels of government. Index E lists entries that agencies believe may have federalism implications as defined in Executive Order 13132. Index F is a subject index based on the **Federal Register Thesaurus of Indexing Terms.**

IV. What Information Appears for Each Entry?

All entries in the Unified Agenda contain uniform data elements including, at a minimum, the following information:

Title of the Regulation. The notation "Section 610 Review" following the title indicates that the agency has selected the rule for its periodic review of existing rules under the Regulatory Flexibility Act (5 U.S.C. 610(c)). Some agencies have indicated completions of section 610 reviews or rulmaking actions resulting from completed section 610 reviews

Priority. Agencies assign each entry to one of the following five categories of significance.

(1) Economically Significant

As defined in Executive Order 12866, a rulemaking action that will have an annual effect on the economy of $100 million or more or will adversely affect in a material way the economy, a sector of the economy, productivity, competition, jobs, the environment, public health or safety, or State, local, or tribal governments or communities. The definition of an "economically significant" rule is similar but not identical to the definition of a "major" rule under 5 U.S.C. 801 (P. L. 104-121). (See below.)

(2) Other Significant

A rulemaking that is not economically significant but is considered significant by the agency. This category includes rules that the agency anticipates will be reviewed under E.O. 12866 or rules that are a priority of the agency head. These rules may or may not be included in the agency's regulatory plan.

(3) Substantive, Nonsignificant

A rulemaking that has substantive impacts but is neither Significant, nor Routine and Frequent, nor Informational/Administrative/Other.

(4) Routine and Frequent

A rulemaking that is a specific case of a multiple recurring application of a regulatory program in the Code of Federal Regulations and that does not alter the body of the regulation.

(5) Informational/Administrative/Other

A rulemaking that is primarily informational or pertains to agency matters not central to accomplishing the agency's regulatory mandate but that the agency places in the Unified Agenda to inform the public of the activity.

In addition, if an agency believes that a rule may be "major" under 5 U.S.C. 801 (P.L. 104-121) because it has resulted or is likely to result in an annual effect on the economy of $100 million or more or meets other criteria specified in that Act, the agency indicates this under the "Priority" heading. (The Act provides that the Administrator of the Office of Information and Regulatory Affairs will make the final determination as to whether a rule is major.)

Unfunded Mandates — whether the rule is covered by section 202 of the Unfunded Mandates Reform Act of 1995 (P.L. 104-4). The Act requires that, before issuing an NPRM likely to result in a mandate that may result in expenditures by State, local, and tribal governments, in the aggregate, or by the private sector of more than $100 million in 1 year, agencies, other than independent regulatory agencies, shall prepare a written statement containing an assessment of the anticipated costs and benefits of the Federal mandate. If the agency believes the entry is not subject to the Act, this data element will not be printed.

Reinvention — whether the action is part of the Administration's Reinventing Government effort and, if so, whether the result will be elimination of existing text in the Code of Federal Regulations (CFR) or revision of text in the CFR to reduce burden or duplication or to streamline requirements. If the action is not specifically part of this effort, the data element will not be printed.

Legal Authority — the section(s) of the United States Code (U.S.C.) or Public Law (P.L.) or the Executive order (E.O.) that authorize(s) the regulatory action. Agencies may provide popular name references to laws in addition to these citations.

CFR Citation — the section(s) of the Code of Federal Regulations that will be affected by the action.

Legal Deadline — whether the action is subject to a statutory or judicial deadline, the date of that deadline, and whether the deadline pertains to an NPRM, a Final Action, or some other action.

Abstract — a brief description of the problem the regulation will address; the need for a Federal solution; to the extent available, alternatives that the agency is considering to address the problem; and potential costs and benefits of the action.

Timetable — the dates and citations (if available) for all past steps and a projected date for at least the next step for the regulatory action. A date printed in the form 02/00/01 means the agency is predicting the month and year the action will take place but not the day it will occur. In some instances, agencies may indicate what the next action will be, but the date of that action is "To Be Determined." "Next Action Undetermined" indicates the agency does not know what action it will take next. Dates after 1999 are printed in the same form as other dates, using the last two digits of the year.

Regulatory Flexibility Analysis Required — whether an analysis is required by the Regulatory Flexibility Act (5 U.S.C. 601 et seq.) because the rulemaking action is likely to have a significant economic impact on a substantial number of small entities as defined by the Act.

Small Entities Affected — the types of small entities (businesses, governmental jurisdictions, or organizations) on which the rulemaking action is likely to have an impact as defined by the Regulatory Flexibility Act. Some agencies have chosen to indicate likely effects on small entities even though they believe that a Regulatory Flexibility Analysis will not be required.

Government Levels Affected — whether the action is expected to affect levels of government and, if so, whether the governments are State, local, tribal, or Federal.

Federalism — whether the action has "federalism implications" as defined in Executive Order 13132. This term refers to actions "that have substantial direct effects on the States, on the relationship between the national government and the States, or on the distribution of power and responsibilities among the various levels of government." If the action does not have federalism implications, this data element will not be printed. Independent regulatory agencies are not required to supply this information.

Agency Contact — the name, title, address, and phone number of a person in the agency who is knowledgeable about the rulemaking action. If available, the agency may also provide the fax number, e-mail address, and TDD for the agency contact.

Procurement — whether the action is related to procurement and, if so, whether it is required by statute and whether it involves a paperwork burden. The Procurement heading appears only if the entry is related to procurement.

Some agencies have provided the following optional information:

Compliance Cost to the Public — the estimated gross compliance cost of the action.

Affected Sectors — the industrial sectors that the action may most affect, either directly or indirectly. Affected Sectors are identified by North American Industry Classification System (NAICS) codes.

Some of the agencies that participated in the October 1999 edition of **The Regulatory Plan** have chosen to include the following information for those entries that appeared in the Plan:

Statement of Need — a description of the need for the regulatory action.

Summary of the Legal Basis — a description of the legal basis for the action, including whether any aspect of the action is required by statute or court order.

Alternatives — a description of the alternatives the agency has considered or will consider as required by section 4(c)(1)(B) of E.O. 12866.

Anticipated Costs and Benefits — a description of preliminary estimates of the anticipated costs and benefits of the action.

Risks — a description of the magnitude of the risk the action addresses, the amount by which the agency expects the action to reduce this risk, and the relation of the risk and this risk reduction effort to other risks and risk reduction efforts within the agency's jurisdiction.

V. Abbreviations

The following abbreviations appear throughout this publication:

ANPRM — An Advance Notice of Proposed Rulemaking is a preliminary notice, published in the **Federal Register**, announcing that an agency is considering a regulatory action. The agency issues an ANPRM before it develops a detailed proposed rule. The ANPRM describes the general area that may be subject to regulation and usually asks for public comment on the issues and options being discussed. An ANPRM is issued only when an agency believes it needs to gather more information before proceeding to a notice of proposed rulemaking.

CFR — The Code of Federal Regulations is an annual codification of the general and permanent regulations published in the **Federal Register** by the departments and agencies of the Federal Government. The Code is divided into 50 titles, and each title covers a broad area subject to Federal regulation. The CFR is keyed to and kept up to date by the daily issues of the **Federal Register.**

EO — An Executive order is a directive from the President to executive agencies, issued under constitutional or statutory authority. Executive orders are published in the **Federal Register** and in title 3 of the Code of Federal Regulations.

FR — The **Federal Register** is a daily Federal Government publication that provides a uniform system for publishing Presidential documents, all proposed and final regulations, notices of meetings, and other official documents issued by Federal departments and agencies.

FY — The Federal fiscal year runs from October 1 to September 30.

NPRM — A Notice of Proposed Rulemaking is the document an agency issues and publishes in the **Federal Register** that describes and solicits public comments on a proposed regulatory action. Under the Administrative Procedure Act (5 U.S.C. 553), an NPRM must include, at a minimum:

- a statement of the time, place, and nature of the public rulemaking proceeding;
- a reference to the legal authority under which the rule is proposed; and
- either the terms or substance of the proposed rule or a description of the subjects and issues involved.

PL — A Public Law is a law passed by Congress and signed by the President or enacted over his veto. It has general applicability, unlike a private law that applies only to those persons or entities specifically designated. Public laws are numbered in sequence throughout the 2-year life of each Congress; for example, PL 105-4 is the fourth public law of the 105th Congress.

RFA — A Regulatory Flexibility Analysis is a description and analysis of the impact of a rule on small entities, including small businesses, small governmental jurisdictions, and certain small not-for-profit organizations. The Regulatory Flexibility Act (5 U.S.C. 601 et seq.) requires each agency to prepare an initial RFA for public comment when it is required to publish an NPRM and to make available a final RFA when the final rule is published, unless the agency head certifies that the rule would not have a significant economic impact on a substantial number of small entities.

RIN — The Regulation Identifier Number is assigned by the Regulatory Information Service Center to identify each regulatory action listed in the Unified Agenda and **The Regulatory Plan**, as directed by E.O. 12866 (section 4(b)). Additionally, OMB has asked agencies to include RINs in the headings of their Rule and Proposed Rule documents when publishing them in the **Federal Register**, to make it easier for the public and agency officials to track the publication history of regulatory actions throughout their development.

Seq. No. — The Sequence Number identifies the location of an entry in this publication. Note that a specific regulatory action will have the same RIN throughout its development but will generally have different sequence numbers in different editions of the Unified Agenda and **The Regulatory Plan**.

USC — The United States Code is a consolidation and codification of all general and permanent laws of the United States. The USC is divided into 50 titles, and each title covers a broad area of Federal law.

VI. How Can Users Get Copies of the Agenda and the Plan?

Printed copies of this edition of the **Federal Register** are available from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402-9325, (202) 512-1800.

Copies of individual agency materials may be available directly from the agency. Please contact the particular agency for further information.

All editions of the **Unified Agenda of Federal Regulatory and Deregulatory Actions** and **The Regulatory Plan** since October 1995 are also available in electronic form. You can search the Agenda and the Plan on the World Wide Web at:

http//reginfo.gov

You may also search the Agenda and the Plan on the Government Printing Office's GPO Access, which is accessible through:

http//www.access.gpo.gov

Dated: April 13, 2000.

Cynthia M. Warner,

Acting Executive Director.

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Mr. FREEDMAN. Thanks so much, Mr. Krishnan. We appreciate you being here. On a personal note, I spend a lot of time dealing with regulations, and particularly with OSHA, so I have firsthand knowledge of what you are wrestling with and what your clients are wrestling with, so I can appreciate the value of your service.

The next part of the program is going to be our open discussion with the other participants here. Before we do that I would like to have everybody introduce themselves, since there are a lot of people who do not know each other yet. I think for convenience purposes we will just start at that end of the table with Mr. Alford. If you would just tell us who you are and who you are with that would be very helpful.

Mr. ALFORD. I am Harry C. Alford. I am president and CEO of the National Black Chamber of Commerce based here in Washington, D.C.

Mr. KONCURAT. I am Mark Koncurat. I am president of Host Designs, a web hosting and web design company.

Mr. LANE. I am Rick Lane. I am with the U.S. Chamber of Commerce. I am the director of e-commerce and Internet technology.

Ms. MACDICKEN. Becky MacDicken with the Tire Association of North America.

Mr. MORRISON. James Morrison with the National Association for the Self-Employed.

Mr. O'CONNOR. Good morning, I am Jim O'Connor. I am with the U.S. Small Business Administration.

Mr. PEYTON. David Peyton, technology issues manager with the National Association of Manufacturers.

Ms. RIVERA. Maritza Rivera. I am vice president for Government relations over at the U.S. Hispanic Chamber of Commerce.

Mr. WHYSONG. Dan Whysong, market analyst, St. Francis College SBDC.

Mr. WREN. Tom Wren, The Wharton School of the University of Pennsylvania Small Business Development Center.

Mr. CONLON. Paul Conlon, Senate Committee on Small Business.

Mr. FREEDMAN. I am Marc Freedman. I am also with the staff of the Committee.

Mr. DOZIER. Damon Dozier, Senate Committee on Small Business, minority staff.

Ms. BAHRET. Mary Ellen Bahret with the National Federation of Independent Business.

Ms. BRADLEY-CAIN. Ruby Bradley-Cain, president and CEO of RBC International. I am here on behalf of the National Association of Women Business Owners, NAWBO.

Mr. D'ONOFRIO. David D'Onofrio, National Small Business United.

Mr. FARRELL. Tom Farrell, senior business development relations manager for BizLand.com.

Mr. GAIBLER. My name is Floyd Gaibler. I am vice president, governmental affairs for the Agricultural Retailers Association based here in Washington.

Ms. HATCHER. Jennifer Hatcher, and I am with the Food Marketing Institute, a trade association representing the supermarket industry here in Washington.

Ms. JACQUES. I am Veronica Jacques with the Direct Selling Association.

Mr. CHUBB. Michael Chubb with SGS On Site on behalf of the Forum for Trust in Online Trade, director of marketing North America for SGS.

Mr. FREEDMAN. Michael, let me just ask you to indicate where you are from because I think you represent a really interesting angle to this question.

Mr. CHUBB. I am actually a Canadian but I represent an entity that is Swiss based with operations in 140 countries including right here in the good, old USA.

Mr. FREEDMAN. So right here we have a demonstration of the internationality of the Internet which is something that I think is really going to become a major factor of this whole discussion as this industry takes off.

Thank you very much. We are happy to have all of you here and I think that we are going to have a very interesting discussion.

We have some questions worked out to get us going, so with your permission I will just start off. The format basically consists of posing questions to the speakers, but if you would like to respond, please put your name tent on end so we can see you, and then we will be happy to call on you.

Just to start off, Mr. Villars, a couple of things emerged out of your statement. One of the things that I was struck by is that you talk about an explosion of companies offering these services for small businesses in terms of purchasing options and exchanges and other formats like that. Is there any experience with things like exclusivity contracts out there? And if so, what does that do for small businesses who might get locked into one type of exchange that may not last long? Or is there a way small businesses can screen which exchanges they get involved with and know what their chances are?

Mr. VILLARS. The question of exclusivity is a challenge in a lot of ways. In fact exclusivity or resistance to exclusivity is one of the things that has driven e-marketplaces to begin with. One of the examples that is brought up a lot is the automotive exchange which was announced a few months ago. In reality, each of those large automotive manufacturers had developed their own e-procurement systems and were quickly moving to get their suppliers online, or trying to anyway.

A lot of the suppliers, the large and the small basically resisted that and said, we are not going to spend our time linking to 100 different systems, or in their case 4, but ultimately 100 different systems. We need to have a more open mechanism to bring us in.

For small businesses, they obviously have less ability to say, "No" sometimes when a large customer asks. On the other hand, no small business is likely to be around very long if they are solely dependent on one or two companies. So it is absolutely critical from their standpoint to look for a more open model.

From what we have seen to date, e-marketplaces are judged to a great extent on just how open they are. We believe that the more independent they are perceived, the more effective they will be in the long term. We do believe that there will emerge an evolving link between these procurement systems and marketplaces, and

that even someone who is building a large procurement system is going to want to have the ability to go out into an open market for selective products and goods as well as for other parts, or controlling their supply chain.

What is going to be challenging for the small businesses is even with marketplaces, and I think the example by EqualFooting's Angie Kim was perfect, batteries are something that are needed in many different industries. It is not a vertically specific activity. A small business really doesn't want to be on one marketplace; they want to be on all marketplaces. We have seen the rise now of hosting companies, of software products that are going to make it more possible for small businesses to be linked to multiple marketplaces simultaneously.

So we do see the ability to prevent excessive exclusivity in these deals. We would definitely say that just from an overall organizational standpoint, the more exclusivity, the less efficiency you will find.

Mr. FREEDMAN. Good. I am sorry, I did not see in what order you all put your tents up. We will go to Mr. Alford and then Mr. Farrell.

Mr. ALFORD. I concur with Mr. Villars. Exclusivity just does not have a role in the Internet marketplace, especially since many of these exchanges have their own specialties or their own niches; two specialties right there that are very important. Some of these exchanges will approach our members and say, "We want exclusivity; we are going to pigeonhole you." And I think the fact that many of these exchanges, I know one big one started 2 years ago at a value of $320 a share, yesterday was at $46. Another exchange was valued in March at $152, today is at $24. Many of these exchanges are going to fall out. When the shake-out occurs and as they fall out, if you are linked with some of these companies, these exchanges, you are going to be dead, out of business for a few months until you recoup and recover.

Mr. FREEDMAN. Thank you. One quick note, whoever is speaking should make a point of grabbing a microphone because this is being recorded and we will need that for those purposes.

Mr. Farrell.

Mr. FARRELL. Addressing Mr. Villars. I also chair a large small business association in Pittsburgh, SMC Business Council, and your comment was that smaller businesses can get into selling their products via the auction sites. What we are finding is when some of our smaller manufacturers who have been selling, buyers from bigger companies are saying, "Listen, my job now, even though we have been purchasing from you for 10 years, is to get the best price possible. We are going to an auction site. We want you to register and be part of that site."

To participate in that we are finding that our manufacturers are lowering their margins so much that if they do take the job they might be starting at 21 percent, they might take the job at 5 percent, then if there is a technical glitch or they have to send salespeople or staff out to the job site, they cannot afford to do it. They are running at a loss. What we are experiencing is, people are not jumping in to selling their product via auction sites because it is coming back to haunt them. They just cannot compete aggressively,

you know, their margins, just take into consideration their overhead. I was wondering what your research shows or how you feel about that, because it is really scaring a lot of our smaller businesses away from competing in that marketplace.

Mr. VILLARS. We struggle with this as we have looked at it. The theory behind the marketplaces, or in general behind the B2B commerce is, the idea is it is supposed to create a more perfect market. Better information, the ability to go out and find the optimal price. We have found that for large businesses—and this will be an ongoing challenge—that they do tend to have this mind-set that this is purely about reducing my cost and basically pushing the cost back in the supply chain to ultimately smaller businesses.

What we have found is—at some level there is not going to be an easy answer. In reality, a lot of small businesses are going to have to deal with this world where geographic distribution and information are not going to protect them as much in some of the bidding.

On the other hand, we do think the marketplaces can compensate for that by bringing you not just to the large businesses but to other small businesses, and that you can have some ability now to go out and more actively participate in situations where you can do joint bidding, or in a situation where you can take advantage of variations in the market. If there is a shortfall and someone has a rush need to do things, if you can target and build yourself so that you can be the best responder for that; you can affect margins.

It is not a perfect world in that sense. Small businesses, like large, are going to face pressures from this change. We just want to make sure that they get the benefits as well as learning the negative implications for the auction sites.

Mr. FREEDMAN. That is a very interesting question. When we were setting up this forum we were thinking: we want to get into the problems that will face small businesses by doing this. Not everything is going to be all rosy. So we want to highlight that and look at those closely.

Michael Chubb, you are next and then Damon Dozier is going to present a question after that.

Mr. CHUBB. Thank you. I just wanted to address the issue of exclusivity. Let us remember that we are not just playing with American players here. We have suppliers of goods, whether it is from Missouri or from Mexico or from the backside of China, that will be providing goods.

The question of leveling the playing field, the question of exclusivity, either to a net marketplace or to a procurement hub, is one which I think the advice is correct. Your advice is correct, sir. No exclusivity. And that goes if you are either a supplier of goods or a supplier of services, as SGS On Site is.

This base has very little opportunity for these cozy little relationships, so little transparency is there. That is part of making greater efficiencies. But something that SGS is doing is developing a set of ratings whereby each participant in a potential transaction can be rated, whether they are Bob and Fred in their backyard in Missouri making the best product possible, or a very large entity somewhere else in the world. This will allow you to understand the

value and capability of somebody in Missouri to go through with the selling of a good through a dot com, whether it is a procurement hub or whether it is a marketplace.

So we are working with marketplaces and procurement hubs to help level this playing field. If you want to show yourself to be the best, you can do that. We can help you identify yourself as being different from the others. But let us recall that it is not just Americans that are playing this game. We have got people all over the world that are asking, "Please rate us," whether it is in southern India or southern Indiana. You have challenges here.

Mr. FREEDMAN. Thank you.

Mr. DOZIER. We have two individuals here who have established strong presence on the Internet. I was interested, Marc stole my thunder a little bit, how does one actually get involved? How do you get started? Is there any sort of tutoring that you all went through? We know that the Small Business Administration has a lot of programs. And in reading your testimony, Ms. Kim, I found out that you were actually working with the Service Corps of Retired Executives, a group that we are very fond of here.

How difficult was it actually to set up shop? And what sort of barriers were set up out there that you can let everyone know here, so that they do not sort of fall into those traps again?

Ms. KIM. I will get started on that. One of the big things that we did when we got started was we had the advantage of having gone through training, if you will, by virtue of having been management consultants at McKinsey. We had helped our large companies, the large clients, go through the challenges of setting up the dot com versions of themselves and so had gotten the training by actually having gone through with clients hand-in-hand, the challenges of building an e-commerce business.

So we went through some of those advantages ourselves, but we certainly recognize that not all small businesses, certainly ones that are starting up, are going to have those advantages.

I would like to address a couple of issues, No. 1, training. One of the things that EqualFooting is doing with the SBA actually is we are setting up online classrooms and also, with SCORE, we are setting up paper pamphlet versions of those online classrooms that help to train small businesses on how they can actually use the powers of the Internet to finance their businesses, get it started, grow their business, as well as how they can purchase, how they can sell, all of these types of things.

We are launching those, I think, in the next month or so. We are very excited certainly about working with such great organizations—that obviously care about small businesses—to help provide some of that training. I think that if you go to certainly the SBA site or SCORE or anything like that, and certainly the associations that are represented here today, I think everybody has those types of resources, and we should all work together to make sure that we make more of those resources available to small businesses.

On the funding side, as a dot com we did not go through the traditional bank debt route. We went through venture capital sources. I have actually been talking a lot recently with many different people about the opportunities in venture capital for small businesses who maybe are not the MBAs from Harvard and come from con-

sulting backgrounds and things like that—especially women, especially in B2B, and especially minorities as well. We have been talking, a group of venture capitalists and some entrepreneurs, we have been talking about how do we make sure that minority and traditionally small business types of entrepreneurs can get to this equity venture capital funding. I think this is going to be one of the big issues that drive how small businesses can competitively compete, effectively compete in this new economy.

How do they actually get to not only the bank loans, which certainly EqualFooting is working to try to make more efficient, but also, how do you get to the venture capital sources that are going to provide you with the millions of dollars that you need to build a brand rather than just doing little sales here and there on the Internet. So I think that is another big issue that we should probably continue to discuss.

Mr. KRISHNAN. I guess in my case the motivation was slightly different, I should say. When I first started my professional career in this country, I started working for a consulting organization and I was surprised—actually the right word is shocked—to find the way the consulting profession works, particularly in the area of regulatory compliance.

I found that they tend to be pretty motivated by their billing systems, which are obviously time and materials based. Not great incentives there for trying to get a job fast. Suddenly, I found that they are masters, shall we say, of the fine art of cut and paste. That bothered me.

All along, maybe partly because I was a little bit naive, I just came from a good technology school, I felt there was an obvious fit for applying technology judiciously to handle some of these routine repetitive needs that regulatory compliance is all about, and about information management.

So in our case, what we ended up doing is we ended up, rather than sitting back in our ivory tower of technology and assuming that one-size-fits-all, technology can address all these problems, we started working with, for example, Mr. Rosendale in Seattle. We took simple small vertical sectors and tried to put together all of their compliance needs and tried to address it by a simple solution which is Internet-based. So we really got started in simple verticals, addressing small business needs, and then moving on to larger businesses.

I guess as far as the lessons that can be learned from what we are bringing to the table, I suddenly think that it is possible to take on the system and the establishment. I discovered that, particularly in the Washington, D.C. area, rather appropriately called Beltway bandits associated with a certain profession. But suddenly, in spite of the might and the strength of certain established traditions, the beauty and the opportunity of the Internet allows us to think in new paradigms. Basically, I would encourage any small business looking to get in the frontier that we can certainly change the world and the Internet is indeed a great equalizer to do so.

Mr. FREEDMAN. I think with the Internet, we will now see the breakdown of that Beltway geographic distinction and we will have more opportunity for bandits all over the country.

I saw Mr. O'Connor's name tent up and then Mr. Koncurat.

Mr. O'CONNOR. Thank you. I just want to say that at the SBA, we look at the Internet as the most powerful change agent that is affecting all of us right now. We look at knowledge as the most important asset that small businesses are going to compete with in the new millennium.

Having said that, one of the things that we are trying to do is to develop more online courses that can help small businesses that are available anytime and anywhere.

I want to also mention that we are very pleased that EqualFooting is a co-sponsor of a course that the SBA will have online within 30 days. That course is specifically about e-commerce or how to do business online, called Online Purchasing, I believe.

We are dealing with a number of co-sponsors now to help us develop course materials that will help small business in the new marketplace. We think that this is extremely important because the Government really does not have the knowledge to develop some of the content that businesses need in today's fast moving environment.

We are looking at working with a number of private companies. We are working with Cisco Systems. We are working with IBM. We are working with Apple and a number of other large entities that are helping us develop courses that will help small businesses. We think that this will be beneficial and would like to do more of that.

But I would also like, today, to hear more from other folks about what the SBA could do in today's environment to better serve small business clients today? That is something that is very important to us.

Mr. KONCURAT. I am happy to hear what the SBA is doing. My company, Host Designs, meets with several small businesses that want to get out and get their web presence started. A lot of them do not have the technical skill or the knowledge to actually get out there and get the job done. They may have the financing. They may have all of those things taken care of. They get to the stage of, "OK, now how do I get my business on the web?" And then the bigger picture of, "Now how are people going to know that I actually exist?" And, "Where am I going to get the marketing revenue to actually spend those dollars and get people to know about me?"

A lot of challenges that we find from small businesses that come to us are based on that, and especially based on not being able to actually have things done in-house. A small business cannot afford to manage their own web server, manage their own equipment. A lot of times they outsource that. There are several competing hosting companies that I deal with that make that challenging for a small business owner to say, "This is exactly what I need to get started."

So I think more information needs to be presented to small business owners of how they can actually startup their business. That is something that we try to do to help small businesses get out onto the web and be able to start their business.

Mr. FREEDMAN. Good.

Mr. VILLARS. Just one quick comment I think that can be looked at, in some ways, is small businesses helping small businesses. One group that we think will be critical here are the accounting and existing support businesses that provide a lot of the underlying finan-

cial services and accounting to existing small businesses. They are in a position, in many cases, of recommending the software, building the infrastructure, or actively being involved in the infrastructure. That really is the part that needs to be tied to these marketplaces to participate in e-commerce.

I think an active effort to educate them so that they can be more effective change agents to their customers would be an important strategy to really make this move a little faster.

Mr. FARRELL. At BizLand.com we have over 500,000 small businesses on our site, we are signing up 2,500 small businesses a day. We offer everything that a small business needs to get their business up and running on the Internet, free hosting, free web site, free e-mail, free storefronts. Everything that a small business needs to get started on the Internet, that is exactly what we do at BizLand.com, offer all those services to the starting entrepreneur to work his way onto the Internet and do his business over the Internet.

Mr. FREEDMAN. So basically the short answer to how does a small business get involved in the Internet is to come to you?

Mr. FARRELL. Yes.

Mr. WREN. My question, Mr. Krishnan, I could not agree more with you when you were talking about compliance management and some of the issues that you face. And I can sympathize with some of the problems that go along with that.

At the SBDCs, specifically in Pennsylvania, we have been working with compliance assistance and compliance management. Right now we have been working with the silkscreen industry, the dry cleaner industry, very small businesses where we are talking usually less than five employees. Some of the issues that arise with them, are similar to the gas stations with the underground storage tanks issues, that were major problems.

I guess a combination of questions for you, Mr. Krishnan and also for Mr. Villars. A lot of the small businesses that we are dealing with, because of their size, one or two employees, less than five employees, when it came time to get out to them they already had so many issues, as you had shown, that they had to comply with—only to throw on the environmental impact issues of, for example, the dry cleaner emissions evaporations.

They really are struggling with time and you have got the issue of do I take the time out of my day to start worrying about getting on the Internet as a survival method? Or do I spend the 12 to 14 hours a day worrying about all these other issues? And oh, by the way, I have got a business to run.

What is your advice? What is your recommendation? Or what have you done to get with the small gas station owners, dry cleaners, silkscreen printers, to figure out an effective, efficient method of juggling 32 hats at one time?

Mr. KRISHNAN. That is a very important question, you are right. Whether it is a laundromat dealing with the recently publicized issues of perchloroethylene emissions. Or whether there is a gas station dealing with leaking underground storage tanks.

I think there is a lot of periodic media scrutiny and regulatory scrutiny which comes and goes in waves for various small business owners. I guess with us fundamentally, our premise is that yes,

there can be a lot of information offered across the Internet, but certainly the Internet as an information dissemination vehicle has changed and transitioned from being a neat information tool to too much information.

So really the key is, whether it is a gas station owner or whether it is a laundromat, we have to make sure the regulatory guidance we provide them has three fundamental characteristics. No. 1, it is timely. And does it match the latest changes in the Federal Register? Or in the case of the Commonwealth of Pennsylvania, the Pennsylvania Department of Environmental Protection.

No. 2, are the regulatory issues and the solution we provide customized for this particular segment? The same regulatory text can be interpreted 18 different ways. That is why consultants are extremely happy with new regulations.

No. 3, it has to be localized. In the case of a laundromat in Harrisburg, Pennsylvania, we have to worry about potentially the city of Harrisburg code, the PA DEP code, and then the Federal code. What we essentially try to do is again use our screening technology, in this case called the e-comply technology, which is based on a lot of expertise in the patent recognition and the AI, artificial intelligence, area to essentially screen and customize the specific needs of a particular client who comes onsite and provides that information to them.

I think fundamentally, in terms of such small businesses, one to five employees, the good news is certainly they are also getting onto the Internet. And in terms of their ability to pay and be involved in such regulatory solutions, I think the key is for agencies such as some of the Governmental agencies, for groups like the SBA, for potentially the Pennsylvania Chamber of Commerce, other institutions like that, to encourage them to come on board and potentially offer this information for free for them.

We certainly are interested in working with such groups to get the small businesses more used to using this new "gizmo" as a very comfortable channel for solving their regulatory burdens.

Mr. FREEDMAN. Thank you, Mr. Krishnan.

Mr. DOZIER. I have a question. I want to concentrate a little bit more on how your businesses on the Internet have continued to stay viable. We know that a lot of them end up failing for one reason or another. Mr. Alford was talking about that.

In particular, how much of your business depends on traditional marketing, traditional advertising? I hear a lot of frustrations, people calling our office saying well, I set up a web site and now people are just supposed to find it. They register with various search engines and what have you.

I liken it to a Chinese proverb, if you have a web site and no one sees it, does it really exist?

[Laughter.]

Mr. FREEDMAN. Is that Chinese?

Mr. DOZIER. No, that is actually Damon.

So I am interested in how much activity your businesses have in the traditional ways of marketing and advertising?

Mr. FREEDMAN. Actually, if I could just jump in on that, I have also been wondering what you all see in terms of the relationship between a company going to the Internet approach and also main-

taining its brick-and-mortar approach. I do not believe that the Internet is ever going to replace the brick-and-mortar approach, but I am curious what you see as the interplay and how someone should balance those two approaches?

Mr. KRISHNAN. Let me go ahead. First, in our case, the value proposition we bring to the table, to the clients, which are fundamentally the reasons, whether it is a small business or a larger business they come to us, is very simple. We say anything a consultant can do for you, we can do it faster, we can do it better, we can do it for a dime on the dollar. So it is not that difficult for us, with that kind of strong value proposition, to go in and get clients to try our service out.

Here really the challenge is yes, we are an interim business. But fundamentally, our sales and marketing program has to be based on a relationship building process. All said and done, for plant managers in a large paper and pulp mill down to a laundromat owner, the Internet is still a new tool. It is still more of a toy, more for e-mail, more for chat rooms. It is not necessarily something they would look to for taking care of a serious aspect of business such as regulatory compliance.

So what we tend to do is hold their hands, show them that this is a simple point and click. You can look at the regulatory needs. You can do multimedia training, streaming across. Here comes the video that says, "Joe, put out the cigar before you fill gas or else."

It is very simple the way our message is put across. And fundamentally to us, that is part of the relationship building process.

In terms of our relationship with brick-and-mortar companies, certainly what we are about is we work with brick-and-mortar companies and basically show them how to eliminate one of the middlemen and the whole process of disseminating information, namely the consulting profession.

Ms. KIM. From EqualFooting.com's perspective, one of the big things that we first did when we started our business was obviously sign up partnerships with our brick-and-mortar suppliers, both large companies as well as small suppliers that are more regional or niche, like the Batteries, Inc. one that you saw in the example.

When we actually got the site up and we had this data base, I think we opened with a quarter of a million sku's of items.

Mr. FREEDMAN. I am sorry, sku's?

Ms. KIM. S-k-u, of items, of product.

Mr. FREEDMAN. That is the digital label of an item?

Ms. KIM. Exactly.

So what we did when our web site was actually up was we certainly did not say, "OK, now that we have built it we expect people to come." We had to do a lot of things actively. And we did some traditional and we did some new things. I will go into a little bit of each.

The traditional things, things like direct marketing. Things like telesales. Things like actually doing a little bit of advertising, not anything like Super Bowl ads or anything like that, but going after the trade journals that really matter to our small businesses, especially our small businesses in construction and manufacturing, which is our core focus.

We certainly started doing those and we have seen a lot of good things come our way, as far as people registering to become members of EqualFooting. In fact, within the first 30 days of our actually starting that type of marketing effort more than 10,000 small business members joined us, which was a great thing for us.

But one of the big things that we realized very quickly, and I think we have probably known this all along, is that as a new dot com, and I think all small businesses who are moving to the Internet will have this challenge, and there are a lot of companies out there, you have to do things that are distinctive.

You also have to make the small businesses, that might hear about you through direct mail methods or whatever, trust that you are not just another dot com that is going to go out of business tomorrow. Why would they give you credit card information over the Internet, or even through the phone, if they think that you might just go out of business?

So one of the things that we have been doing is working with very reliable brick-and-mortar companies that have very strong brands in small business services. Companies like American Express. Companies like ADP, BancOne and First USA. These types of companies that have been known to small businesses and already have half a million to a million small business customers each, to actually do co-promotions with each other.

We actively promote their products and services to our customer base and vice versa. To have somebody like American Express be telling our story and our value proposition to our small business customers has been a tremendous, tremendous brand building and credibility building exercise for us.

We are also working with associations like the ones that I mentioned before to build a brand, and also with other associations and small business advocacy groups like NFIB to actually reach their membership base. One of the big things that we have been trying to do is really buildup credibility among this group of corporations and organizations that really care about small businesses, and convince them "Hey, we are in it for the long run and we are going to be here to do nothing but think about and serve the interests of our constituents."

Mr. FREEDMAN. Great. I have Mr. Villars and Mr. Lane and then Mr. Farrell and Mr. Chubb.

Mr. VILLARS. We are in the position of probably—and I actually have been actively involved in the e-commerce base directly managing the group for only 5 months, and I can already State that I have met maybe 200 startup companies focusing on B2B. So we have some visions here, and we have developed a little bit of a checklist of how we tend to judge these and what their issues are.

The No. 1 priority in how we judge these companies and their long-term success is: Are they good at community building? This is a rule of the Internet in general when you look at dot coms, regardless of whether it is consumer or business, are they building a community of people who want to live in their space? Who when they go into work today, this is where they go and they do things there? Whether it is to buy things or to collect information or do other activities.

So you do not have to be Yahoo on day one, but you have to be aggressive in the development of your product, in terms of how you communicate yourself on the Internet and in the direct marketing things. Are you successfully building a community where people want to actively participate in that community?

So that is how we tend to judge what is going on. We will look at sites, and I think both of the other panelists have spoken actively about how they do that. But that is the No. 1 rule for looking at long-term success, are companies—do they offer the services of a community? And then do they start adding additional services to that?

So you start with commerce. You add financing. You add more information on training. You add other things that are of interest to that community. And I think one thing you will find is the marketplaces will emerge as each other's best friends. A marketplace that focuses on providing education services will link with a marketplace focusing on equipment, linking to a marketplace that is focusing on supporting gas station owners as their particular vertical.

You begin to offer a single, bundled service of functions for that community. That will really determine who is going to be successful in this space.

Mr. LANE. The Chamber comes at this problem from a unique position. No. 1, 80 percent or 90 percent of our members are small businesses. And No. 2, we are a minority owner of an entity called ChamberBiz, which is a small business portal that has over 200 of its local and State chambers that are members of it, where we work with their members to get them online and doing some of the things that you guys are doing, but also providing some information on legislation and other things.

One of the issues that you were talking about was advertising and marketing on the Internet and how do you get that message out? One of our big concerns, and it was brought up by Senator Burns, is the issue of privacy and some of the legislation that is moving that could possibly hinder the ability of small businesses to target their audience because of limitations placed on how information can be used.

So we are working diligently on a self-regulatory method and through the Online Privacy Alliance and other business associations, the Direct Marketing Association and other advertisers, to ensure that privacy is protected but not, at the same time, hindering the ability of small businesses to get their message out to a very targeted audience in this very, very competitive world.

But on the flip side of that, those people who are nervous about privacy, the market again is working where there are over 700 products that have been introduced in the past 2 years to protect an individual's privacy. There are also business models out there that protect individual's privacy such as Incognito. It is an online advertising firm. So there are a variety of things going on right now in that area.

The other thing that is very critically important to B2B is obviously the e-sign bill that was brought up by Senator Burns in his leadership role on a lot of these issues. We are confident that this legislation will again open the market to new dynamics for con-

tracts to be done online, for records to be done online, in a way that results in even more efficiencies for this economy and continues to grow.

Also a critical issue for small businesses is the issue of trade and is the reason we are working on PNTR (Permanent Normal Trade Relations with China), to open these markets to small businesses. It is worldwide and small businesses can access that market in a way again that is open and free.

So all the issues are related in terms of trying to find a common ground for small businesses to enter in this new dynamic marketplace, and at the same time building that consumer trust so we do get more customers involved in this new economy.

Mr. FREEDMAN. Thank you. I have got Mr. Farrell and then Mr. Chubb.

Mr. FARRELL. What we found at BizLand, as we were trying to move the brick-and-mortar small businesses and entrepreneurs into this space, is they have a certain fear of having their competition one click away from them. To get them over that hurdle, to get them into the Internet space, is really a very big challenge.

A gentleman that has a flower shop on the corner, who has no competition within 4 or 5 miles, all of a sudden someone does a search and he comes up, but there are 100 competitors there. We found that is really keeping small businesses from jumping into this space at a much quicker rate.

Mr. FREEDMAN. How do you counter that? I guess one thought would be your competitor is there and if you are not there you will not get anything out of it. But on the other hand, I can appreciate the fear.

Mr. FARRELL. Tell that to the person who has had the floral shop for 30 years on the corner of First and Main, that they need to be in that space. It is a very hard sell for them to make that jump.

Mr. FREEDMAN. A psychological type of area.

Mr. CHUBB. I just wanted to address the issue of trust. Ms. Kim, you brought up the concept of trust and you brought up the concept of security. Yes, there are issues in relation to digital security, encryption, e-sign, and so forth. Senator Burns is pushing hard and we appreciate his efforts because that is going to lead to efficiencies.

One of my other hats that I am wearing, that you do not see on this copious hairless skull, is the Forum for Trust in Online Trade. It is an organization that exists to address its title, trust in online trade, in all its myriad of issues, whether it is security or identity or how do you, as Mr. Villars pointed out, pay for actual goods between businesses?

We are not talking a CD for $20. We are talking $50,000 to $100,000 to $2 million. There are large quantities. There are large issues there.

I think Ms. Kim also brought up a valid point, that you can, as a small business, assess a dot com by the nature of its partnerships that it has present on its site. We have one of the Forum founders members in the audience here today, Rebound. They are a dot com that is international, and has domestic activity as well.

If you go to their site, you will note that they have partnerships with SGS, but also with a major freight forwarding entity. They

are discussing major relationships with the largest insurance company in America, I think, as well as other key service providers. So the issue for the people here representing associations, when you talk to your small to medium enterprises, and they are being approached, part of their due diligence is to assess their checklist of suppliers, in terms of other key service providers.

If it is blank, worry. If they have got major alliances with major names and you can search them, then you are starting to lead the way toward a more trusted environment.

Mr. FREEDMAN. Thank you. Before we go to Mr. Peyton, Paul Conlon has a history with some of these issues.

Mr. CONLON. We did a forum, which many of you guys were at, a couple of months ago on computer security. Since that time, we have had a number of meetings with some folks over at the FBI. They have put together a new center called the Internet Fraud Center, which they just launched I think in early May. I would encourage everyone to pay attention to the efforts that the Bureau is doing in that. I think it is a worthwhile effort.

Mr. PEYTON. Thank you. We have been aware for a long time of the challenges faced by smaller- and medium-sized manufacturers in applying any kind of technology. We have done a series of three studies over the last decade called "Technology and the Factory Floor," which showed repeatedly that smaller plants trail larger plants in applications in any of 15 different categories, mostly related but not entirely related to information technology.

We also did a survey in the past year with the McGladrin auditing and consulting firm because we were seeing numbers regarding how many businesses are putting up web sites, which is encouraging. But what we found was that when you look hard, there are somewhere between 100 and 200 really good web sites put out by small- and medium-sized businesses. We singled out Smucker's Jams and Jellies, Samuel Adams Beer, and interestingly Rayovac Batteries. They compare their own with all the other manufacturers and they have the best comparison chart for all the models and numbers that I have ever seen, at their own site.

With all these thoughts in mind, we put up our own e-business portal this year, ManufacturingCentral.com. I have not been to BizLand but it looks like we have some overlap of functions with what you offer there at BizLand.

We agree with what Mr. Villars has been saying, that it is really not just a vertical chain that would be most useful to smaller businesses, but a much fuller suite of capabilities. So we offer everything from web site hosting to bid offering. We feel that there have to be many more horizontal offerings to be truly useful to small businesses to get up and going. So we certainly agree with that perspective.

On the policy agenda, we have been working with the Chamber on the e-signature bill. That is probably the single most useful thing Congress could do quickly, is to get that to the President so that businesses can do deals, which are above a credit card level, entirely without paper.

Mr. FREEDMAN. Thank you. Mr. Alford.

Mr. ALFORD. In regards to the florist, it is the same concept as the Yellow Pages. I think if you are in business, you better be able to compete. In business, Darwin does apply.

In regards to the security issue, fear of using your credit card on the Internet, I think with practice we will overcome that issue. We all go to a restaurant and will give our credit card to an 18-year-old waiter from who knows what background, who will go into the back room with it for 10 minutes. We have comfort with that.

Finally, in case it does not come up again, in the private sector, we really are wondering if it is right to label a business a minority business, a woman business in the private sector. There is not a Fortune 500 company that does more than 2 percent with African-American businesses. Not one.

I have faxed too many CEOs about a buyer out in Kokomo, Indiana, who prefers to spend $40,000 more of his company's money because he likes the guy who is selling him some goods versus one of our members. So I think perhaps we may level the field a little if the person does not know the ethnicity or the gender of the business owner but focuses on quality and price. If we are to be competitive, I believe we will increase the amount of business we do in the private sector.

Mr. FREEDMAN. Thank you.

Ms. HATCHER. Jennifer Hatcher with the Food Marketing Institute.

I think we have really hit on some of the most important topics, in terms of getting folks motivated to get online, and in talking about the value proposition and community, certainly our small business members see purchasing as a big issue. They definitely see compliance as a big issue.

The other issue that we are really facing right now is labor in our industry. We have just launched an Internet venture, in terms of SuperJobMarket.com linking employees and employers and really giving small businesses the opportunity to go after those critical employees in the industry. I think, in terms of talking about community and the value proposition, to get folks motivated to get online, they are going to stay online once they realize the power of a PC. In a lot of instances, a small business is in better shape than a large business who has got an older computer system, where a small business can take one PC.

We have a single store operator in the New York City area who sells specifically Latin products and has found that he can now go across the country to sell to a lot of communities that do not have products designated for Latino families, just with the power of his single personal computer.

Mr. FREEDMAN. That is very encouraging. I was interested in some of the comments from some of the industry-specific groups about what their members may be doing in this area. We have been hearing a lot about people who are involved in the Internet specifically, but I am also interested in the tire group and how your members are getting into the Internet.

Ms. KIM. A quick note on the issue of security. Certainly, I think digital security is very important. I think we, as well as other marketplaces, are complying with all of the regulations that we need and getting all of the certifications.

But I think one thing that has been really important when we have talked to our small business customers, we actually have an advisory board of about 80 small business owners that we sort of run everything by. This was something that we started last summer.

One of the big things that they told us about security is it is less the online security that they care about and more the fact that they might be able to pick up the phone, if they do have a problem, and be able to reach a live person. A lot of net market makers and exchanges have not provided that kind of basic customer service function.

One of the big things that we push to do is somewhat become a brick-and-mortar company ourselves by building out our own call center that serves 24–7 with a toll-free number. Even people who do not have PCs can actually call, not only with customer service questions but also actually access all of the same functions that online customers can.

I think this has actually provided our customers with a lot of confidence that hey, this is not just a phantom web site that nobody looks at or anything like that. I think this is something that we entrepreneurs and all net market makers should really strive to provide, is that kind of real phone, live service.

Mr. FREEDMAN. In the end, you just want to hear a voice.

Ms. KIM. Exactly. For some reason, they do not mind actually giving out their credit card number, as long as it is to a person. I am not sure why, but they do not.

Mr. FREEDMAN. Mr. Lane and then Mr. O'Connor, Mr. Gaibler and Mr. Wren.

Mr. LANE. I think one of the ways to get more small businesses online are these types of events. I want to commend Senator Bond, Senator Kerry and Senator Burns for putting on this forum, because it allows for education. I am sure this is going to be on the web and businesses can access that.

One of the things that we are trying to do at the U.S. Chamber, and what we have initiated, is a massive educational process on the issue of network security, on the issue of how to get online. We are partnering with State and local chambers to put on events in those areas. We have one coming up in the State of Oklahoma. We are going into Missouri and a few other states, trying to get into markets.

We are not going into Silicon Valley and telling John Chambers how to do e-commerce. But we are going to the places that have not been effected that much by the e-commerce bug. That is probably a bad term to use.

Education is key. I think the more you buildup that comfort level—just as we talk about customer trust, I think we also have to get business trust up there.

So I just wanted to commend you and your bosses for putting this forum on, because it is critical to get this type of information out.

Mr. FREEDMAN. Thank you. We should all recognize that this is being broadcast live over the Internet right now through the Small Business Committee web site, and it will be archived on the web site. So if you all want to go back and see how the forum looked,

you can click on it and bring it up on your RealPlayer software and take a look at it. The archives are maintained for one year.

The Internet moves fast, but it is not too late to get into it. That is a great message.

Mr. O'CONNOR. I think everybody in this room agrees that small businesses need to understand and engage in e-commerce right now. But it is still about the customer. No matter how high tech a company gets today, basic business tenets still apply.

We are getting a lot of requests now from small businesses, and one of the things that we are looking at is, even though everybody wants a web site, there is more to it. The basic business tenets still need to be understood by the small business community, and we are still trying to help them in that area.

Mr. FREEDMAN. Thank you. Mr. Gaibler.

Mr. GAIBLER. Thank you very much. Our members are primarily retail farm suppliers and the products that they handle are primarily agricultural chemicals and fertilizers. So not only do we have to comply with the regulations of running a business, we have to comply with the EPA, the DOT, the material safety data sheets, all of those requirements. It has been a real struggle for us to try and get our hands around all of that aspect.

What we see happening, at least in terms of agribusiness, is we see a lot of business-to-consumer web sites popping up where there are more auction sites or brokering of these products. We have been concerned about the stewardship of that. Once those products are purchased and change hands, are they actually being legally able to use where they have been bought? And are those products still in their same containers, do they meet EPA requirements, et cetera?

One of the ways that we are trying to deal with this as an industry is a group of manufacturers, distributors, and our retailer members, trying to put—an organization has been put together where we are trying to build data bases, we are trying to get to the point where we can bar code these products, where we can have electronic data interchange, electronic funds transfer, those sorts of things.

Just an example: The agricultural chemicals that exist in excess inventory is over $1 billion every year. So you can see that the savings and the product efficiency that we could get out of that is tremendous. So we are struggling with that as both a threat because some of our members see this brokering going on as a threat and as an opportunity. I think the entrepreneurial part of it is saying, we will take advantage of that and get on that brokering exchange and buy and sell chemicals and other products as well. But this is a big challenge for agribusiness.

Mr. FREEDMAN. I am not surprised.

Mr. WREN. I wanted to go back to Mr. Lane's comment about how to get more small businesses involved with the use of the Internet. That posed quite a challenge for us at the SBDCs, Small Business Development Centers, dealing with a lot of very small businesses with under 10 employees. Being from Missouri, one of the philosophies I have always had is "show me."

So with that in mind, since in Pennsylvania, I will use the example that where we are located there are 16 colleges and universities

throughout the State. We decided that one of the best ways to do this is instead of having them come to us or start talking about it, let us take this on a road show. So by doing a series of seminars—and actually beyond the seminar stage, taking laptops, going into a business where we are sitting down talking to them about it. I ask, "Do you have an open phone line?" Let us plug it in. Here, play with this thing. As Senator Burns said, the only way you are really going to mess a computer up is if you enter a soda through the keyboard. It is not going to hurt you. So let them play with it.

My colleague Dan Whysong from St. Francis College was meeting with a very interesting company last night. It is a very small business. The owners are in their seventies. They have an agricultural type business. They were of the mind-set, this thing is too scary for me. I think Dan did a very good job last night. He has made progress. They said, "OK, we can get you to post a web site, but we do not want e-mail." So we have got them to the point they have bought the automobile. Now we have just got to convince them to put an engine in it.

I think you have to actually get down to the grass roots of small businesses. One of the major outreach efforts that can be used for that is colleges and universities with all of the resources and assets that they have to give back to the communities, in partnering with organizations like that it will help to expand those small businesses, such as the one with the 70-year-old business owner.

We tend to have a gap that we look at—I come home from work in the evening and my 17-year-old daughter will show me another new thing she learned how to use on the computer, which is probably 10 steps above where I am. And if you go to the 14-year-olds, they are showing the 18-year-olds how to do things.

Then we have got this group of middle-sized businesses—small- and medium-sized businesses that are good at using the Internet but there is that gap from about age 20 to 25, 30-years-old who are business owners that have so many other issues and they really did not get the training, whether it be in a formal setting such as a college or a university, or went out and struck out on their own. They are trying to start their businesses, and I think that is a lot of the target market where we need to grow this technology; growing those businesses has got to be a focus.

I think through using organizations that are represented at this table, the Small Business Development Centers, the colleges and universities, can be a great resource for that. I think this is pretty common what a lot of us are seeing with small businesses.

Mr. FREEDMAN. Can I just interrupt you? We are running out of time and we have got one question that we need to present to the group that we really want to hear a response on. I am going to direct it to Becky MacDicken and David D'Onofrio right now since their name tents are up, and I think it applies to them very closely.

In terms of what the Small Business Committee can do for this issue, what kind of legislation do you think we might be able to generate? We have heard about the e-sign bill already, but we want to talk about incentives in terms of what do you think would help small businesses? What would pull them in? What kinds of things can Congress do to pull them into this market? Is there some ques-

tion of tax relief or something? I am just throwing that out because I know that it is always one of the top subjects that people go after.

David, do you want to start and then Becky?

Mr. D'ONOFRIO. I think the first thing you guys can do is do no harm. We try tax incentives, we try tax credits, we do all of these things and they are nice——

Mr. FREEDMAN. Is there a bill that says, do no harm?

Mr. D'ONOFRIO. I think your boss should introduce one. Tax credits are good. They help in a lot of different areas. I am not sure this is necessarily one of them that will help.

The quick point that I was going to make is at these forums, these kinds of opportunities to educate people that is really what we need. We do a survey every year with Arthur Andersen's enterprise group. The results are going to be released at the end of June. It is shocking to see how many folks do not think they need to get into e-commerce. How many people who just, it is not for their business. You see the challenges that are out there and we ask them, what are they? And it is all spread out pretty equally. It is the time. It is the cost. It is the fear. It is the technology moving faster than they can keep up with.

I am not sure that is something that necessarily Congress can do too much about. I think it is what the folks on the panel and the folks around this table who really have to do the most to help small businesses.

Ms. MACDICKEN. I would agree obviously with what David just said. Just to give you a quick anecdote as to what our membership's mentality is: We got a call last week from a member who went online and was searching around for a small tire dealer or for tire dealerships in his area of New Jersey and found one of his main competitors was online. He was livid when he found out he did not have to pay taxes nor were there sales taxes on any sales that that gentleman made.

He said, that is not fair to me. Anybody I deal with in my shop has to pay sales taxes. So he said, we want to make sure you press legislation advocating taxes. We said, no, no, no, we cannot do that, obviously. But we also pointed out to him that the shipping and handling costs alone would probably more than make up for those taxes.

We would say at this point we approve of the moratorium that has been passed keeping Internet sales taxes status quo. But as far as other incentives, I do not know. They are scared and they are not sure what to do, and they do not trust people, and I do not know how you are going to get over trusting—I mean, the Government coming in and saying, we are here to help, will not help. So I am not quite sure what else to say other than e-signatures and what we have heard this morning.

Mr. FREEDMAN. I want to give our panelists probably, I guess it is going to come down to our last word here on this. So we will start with Mr. Krishnan and then move across.

Mr. KRISHNAN. Thanks. I think a very obvious area where we see that Congress can help in passing legislation is to mandate that small business owners, as well as larger businesses, can comply and take care of their paperwork filing online. To me, this is such a no-brainer. It is a win-win situation.

By doing so, because all of us are familiar with the Paperwork Reduction Act, we see the small print at the end of every form, but the people we have talked to on the governmental side, the State governmental side we are in dialog with a couple of State governments they just, based on their analysis, were astounded to find that by doing so their costs of disseminating information about new changes, about the outreaches, instead of just relying on traditional toll-free hotlines, and seminars and so on and so forth alone, and their cost of processing the paperwork is reduced dramatically.

So not only do small businesses save a lot of money with electronic filing, but, the Government on the side of processing the form and the data and related enforcement actually end up spending a lot of time and a lot of money that could be reduced with electronic filing. So hope again this logic and common sense—acknowledging the Internet's existence and its viability for being the delivery platform will help the Congress take that step.

Mr. FREEDMAN. Do you see the forms being changed to be filed online or is it the same form which happens to be online?

Mr. KRISHNAN. Right now fundamentally you have a couple of Federal agencies, in particular the IRS and SEC, which have taken some steps in that regard. If you take EPA, OSHA, if you take a variety of State governments you find they are still—have not really begun to think about it.

Mr. FREEDMAN. It is the same form it just may be available online.

Mr. KRISHNAN. And particularly I think for a small business owner, or for a larger business owner, every day is like an IRS April 15 deadline. To be able to deal with all of those seamlessly, efficiently using technology is going to be a great boon.

Mr. FREEDMAN. Sure. Thank you.

Ms. KIM. I think I would wholeheartedly agree with the recommendation of do no harm. One of the big things that I think where Members of Congress can really help with respect to small business awareness is rather than legislation, going back home to the small business constituents and having forums like this that are educational, with people like us who care about small business e-commerce issues, and inviting their small business constituents. I think that is going to be one of the most effective ways of actually affecting change in this area.

I know I have participated in such forums held by a Member of Congress before. One particular one was in Michigan with something like 600 to 700 small manufacturers who were there. It was a fabulous dialog that we had with all of the different people, and it was a great way to actually change behavior because the Congressman was there and talked about all of the different opportunities.

I am definitely looking forward to the Kansas City event, and I think opportunities like that where Members of Congress actually show that they want to communicate directly to their small business constituents and invite people like us who are actually doing some of that, I think that would be a great way and the right step.

Mr. VILLARS. I would close with one point. IDC is not typically in the business of suggesting legislation, but I think as we look at the future of these marketplaces and if they do reach their poten-

tial in terms of the number of users and the activities going on there, there are going to arise issues very similar to what the securities and commodities businesses face. Where there is going to have to be a certain amount of trust or a guarantee of trust in the system so that the participants all feel that this is an open market and that there are no potential shenanigans going on, as you would say, which always are a risk.

So we do think that that is the thing to be aware of as this goes forward, because while business is very good overall, you always are going to have the risk of somebody trying to take advantage of the system. That is going to cause—if that becomes public and very visible, you are going to lose a lot of trust from the people who actually are getting the most benefit from that.

So we would say that a vigilance and watching to see when you reach a certain scope that you begin to think about those issues will be something that Congress should keep its eye on.

Chairman BOND. Thank you very much. Our special thanks to the panelists and to the participants around the table. I was watching the forums on the Internet as I was meeting with groups in Missouri. It is interesting that you should mention that question of trust because among the groups I met with were realtors from Missouri and they were concerned about maintaining the security of the information that they receive there, and I suggested that this was an important role for technology to develop because we much prefer to solve these problems by technology rather than legislation. But as you indicated, there may well be some technology needs that are not—some technology gaps that must be filled with legislation.

So we ask that all of you continue to advise us and work with us, and as we see how this develops we will be listening for the voices of small business, and those of you who serve small business, to see if there are needs that we must address by legislation. As you indicated, our preference is to do it with technology, but if we find that that is not adequate then certainly we would be in a position to consider the legislation.

I am convinced that in the next few years the Internet-based B2B transactions will be commonplace, and a major component in the small business community's ability and approach to doing business. Obviously we have identified some tremendous—I would prefer to refer to them as opportunities rather than challenges, but I think you have laid out for us what those "opportunities" are.

As always in our forums, the record will remain open until June 1 for additional comments or statements from anyone who wishes to submit further ideas or expound upon discussions that have already occurred today. We will be publishing a transcript of this forum for future use, and I would reiterate what I believe Marc Freedman has already told you, that in keeping with the high-tech nature of this subject, the Internet streaming of the forum is archived on the Small Business Committee's web site at http://www.sbc.senate.gov. You click on the hearings icon and you can hear all of this again.

Also we ask that you continue to share with us through the Internet or any other more mundane means of communication you wish to use on your ideas in this exciting and very important area.

Thanks to all of you for attending and for participating. It has been a very fruitful discussion and we are delighted to have so many people who have participated here with us in this room and also via the Internet.

Thank you very much for your time.

[Whereupon, at 11:35 a.m., the Committee was adjourned.]

APPENDIX MATERIAL SUBMITTED

Statement by John F. Kerry, Ranking Member
Committee on Small Business
Forum entitled "B2B: An Emerging e-Frontier for Small Business"

May 18, 2000

Good morning and welcome to the Committee's forum on Business to Business electronic commerce - commonly called B2B. I would like to thank Chairman Bond for scheduling this roundtable, and I look forward to hearing what I believe is going to be a valuable and frank discussion about the benefits, barriers and issues surrounding business to business transactions over the Internet. I believe that all of you who have made the time commitment to come here today to talk about this issue -- from those of you that operate and maintain Internet sites, to Chamber of Commerce representatives, to industry representatives -- represent a good mix of perspectives. I hope that you find that the time you have set aside here today is time well-spent.

I realize that some of you have traveled long distances to be here, from as far away as Ontario, Canada, and I appreciate your willingness to participate. I'd also like to recognize Mr. Rick Villars, Vice President for Internet and E-Commerce for the International Data Corporation headquartered in Framingham, Massachusetts. I understand that IDC is an industry watchdog group that delivers insights and advice on the future of e-business, the Internet, and technology to help organizations in business planning and development. Their customer base includes the world's leading information technology (IT) suppliers, IT organizations, and the financial community.

I also understand that earlier this year, Angie Kim of EqualFooting.com met with my Committee staff. The growth of her company in just one year is a tremendous success story and reflects well on the kind of help the Small Business Administration's business development programs can provide. I also understand from her testimony that she has partnered with the Service Corps of Retired Executives, and this group's volunteer counselors have agreed to offer their online business counseling advice to EqualFooting.com customers. The value of partnerships like these cannot be understated. Thank you, Angie. Your story should provide inspiration to individuals who are seeking help from SBA and its resource partners.

The Internet, as this Committee heard during our previous forum on e-commerce, is exciting new territory. The presence and use of the Internet has begun to change dramatically the way our nation does business. It allows businesses, both large and small, to reach out to a global

consumer base with comparatively small start-up costs when measured against traditional ways of starting a business. Of course, we are all familiar with the stories of "dot com" firms that have attracted huge amounts of venture capital and become strong businesses in a short period of time.

Unfortunately, we also learned in that forum that many small businesses have not yet taken advantage of the Internet. In their prepared testimony, our panelists agreed that small business have not yet taken advantage of B2B opportunities for a number of reasons, including lack of trust in online trading and limited access to technology. Additionally, according to IDC, while recent research shows that 61% of small businesses will be connected to the Internet by the end of this year, only 16% will be connected through the use of a permanent high-speed network connection. The high-speed network connection is the necessary hardware for a business to establish a real-time presence on the Internet, and become an aggressive seller of goods and services.

IDC also predicts that this year, B2B e-commerce will number $210 billion, accounting for more than 78% of all ecommerce worldwide. By 2004, B2B purchases will reach $2.2 trillion, or 88% of all e-commerce worldwide. During this period, IDC claims, U.S. businesses of all sizes will lead the growth in B2B, with the total value of e-commerce purchases by U.S. companies reaching $924 billion in 2004. Of course, small businesses with no access to the Internet, will be excluded from this economic trend, and that would mean significant loss of potential revenue.

Small businesses are also wary of the Internet, questioning the security of their proprietary information, and potential taxes on transactions. Perhaps this is the reason why IDC notes that in terms of purchasing, U.S. small businesses will account for 28% of this country's ecommerce transactions in 2000, while in Germany, small businesses are responsible for 34% of their country's purchasing, in Sweden and the Netherlands, 32%, and Japan, 27%. I hope that this is a trend that can be reversed, so that small businesses won't be left behind as our world is changing right before our very eyes.

Unfortunately, I will not be able to stay very long today, but I know that Damon Dozier, a member of my Committee staff, will participate in the forum and keep me informed of everything discussed. Again, I thank you all for coming today, and I also thank the Chairman for holding this forum.

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BEFORE THE

U.S. SENATE

COMMITTEE ON

SMALL BUSINESS

MAY 18, 2000

WASHINGTON, D.C.

STATEMENT OF THE

AGRICULTURAL RETAILERS ASSOCIATION

ON

"B2B: AN EMERGING FRONTIER

FOR SMALL BUSINESS"

PRESENTED BY

FLOYD D. GAIBLER
VICE PRESIDENT, GOVERNMENTAL AFFAIRS
WASHINGTON, D.C.

The National Voice of Ag Retailers

■ ■ ■ ■ ■

Mr. Chairman, and members of the Senate Committee on Small Business, my name is Floyd Gaibler. I am Vice President, Governmental Affairs for the Agricultural Retailers Association (ARA). ARA represents nearly 1,000 member companies, operating out of more than 7,000 locations, providing farms and other customers with plant nutrients, crop protectants, seed, feed and other supplies. ARA members also provide agronomic, environmental and technical services to ensure proper management of crop inputs. An ever increasing number are involved in providing precision agriculture services, including: soil grid sampling, field mapping with geographic information systems, controller-driven variable rate application, yield monitors and remote sensing. Our members consist of primarily of small independent retailers. However, a large segment of ARA members are either part of a national/regional chain or independent or regional co-ops.

I again appreciate the opportunity to present a small agri-business perspective on the barriers and opportunities of internet-based business to business commerce. E-commerce presents both threats and opportunities to ag suppliers and retailers. When I last appeared before the committee, we noted several barriers to e-commerce for small agri-businesses, including a lack of staff resources devoted to information technology systems with their core business.

Another obstacle was the introduction of new web sites that provide a forum to buy and sell excess or inventoried agricultural chemicals. The products are approved by the U.S. Environmental Protection Agency with specific label rates of use involving geographic regions, safe handling and application. These sites have raised concern within our membership about whether the products that are bought and sold are ultimately being handled and applied in a stewardship fashion that is within the federal label requirements. To address this issue, ARA issued a white paper on product stewardship principles that should be observed by parties involved in products purchased and sold on-line. The paper has the tacit approval of EPA and has been widely communicated throughout the industry.

In addition, in May 2000, ARA issued forwarded a Tip Sheet to help retailers address servicing crop protection products acquired through the Internet. Both are included as an attachment to this statement.

Agriculture E-Commerce Growing but B2B Still in Infancy

Over the last two years, there has been a proliferation of e-commerce B2C sites established to provide farmers information and on-line access to a vast array of agricultural supplies and equipment. Most of these sites are designed to help retailers expand their services and better communicate with their customers. One of the most recent, www.roooster.com is a web-based marketplace that includes local farm retailers, cooperatives and manufacturers. Rooster.com is designed to be a new web marketplace for farmers and is described as a "two-way virtual mall for the agricultural industry." Retailers can benefit from establishing a storefront presence on the site to provide services, including agricultural inputs, credit, storage, product returns, and marketing expertise.

Other sites (e.g., www.XSAg.com., www.DirectAg.com., www.powerfarm.com, www.farmbid.com, www.agweb.com) offer platforms to purchase and/or sell agricultural inputs such as crop protection chemicals, fertilizers, seeds, parts and equipment on-line. While these sites offer retailers opportunities to secure agricultural inputs from an alternative source, they are not true B2B e-commerce with their vendors and suppliers.

Like any small business, ag retailers are interested in finding ways to reduce administrative costs, seek better inventory control and just-in-time ordering of products. One industry group, RAPID Inc, (www.powerag.com) actively assists North American Agri-Business realize the economic and stewardship benefits of electronic commerce. RAPID is comprised of more than 35 agricultural product manufacturers, distributors, and retailers and "develops and promotes commonly supported standards, processes, databases and electronic connectivity."

RAPID utilizes electronic commerce that combines or includes Electronic Data Interchange (EDI), electronic mail, electronic funds transfer, bar coding, on-line access to critical operations and business information databases, electronic bulletin boards and access to the Internet and the World Wide Web. Once finalized, it is hoped that these industry standards will promote the rapid adoption of e-commerce for ag retailers.

B2B Barriers and Opportunities

With the exception of RAPID, there is no apparent platform for agri-businesses to conduct B2B e-commerce. Nonetheless, it our belief that agri-business will experience tremendous growth in B2B e-commerce in the next few years. In particular, ag retailers are looking for ways to improve productivity and efficiency gains through electronic purchasing, inventory control, deliveries, invoicing, and regulatory compliance. The ability to have available product supply and inventory information, as well as answers to questions about regulatory compliance, stewardship and restocking of product will greatly enhance the economic viability of retailers. Equally important, electronic industry standards will improve the ability of manufacturers, distributors, retailers and farmers to better communicate up and down the business chain. Knowledge will be more timely and accurate.

However, one obstacle for small agri-businesses may be the initial investment necessary in computer software and design. In addition, small agri-businesses need information sources on where and how to access technological assistance in establishing e-commerce solutions.

Thank you for the opportunity to present our views on this important issue.

ARA WHITE PAPER

A Policy Position Paper
From the Agricultural Retailers Association

March, 2000

E-COMMERCE AND PRODUCT STEWARDSHIP

Background: The Agricultural Retailers Association (ARA) is the national trade association for companies that provide crop inputs and services to the nation's farmers. ARA is committed to the safe, effective distribution and use of agricultural chemicals. ARA supports environmental stewardship and professionalism in every aspect of agrichemical operations.

As with many other kinds of products, sales of agricultural chemicals are now being arranged and conducted over the Internet. However, unlike many other products, most agricultural chemicals are strictly regulated for environmental, health and safety risks. The re-packaging of saleable units into other saleable units is also strictly regulated.

In the interest of environmental stewardship and professionalism, ARA believes the following principles must be observed by parties to the sale of agrichemicals over the Internet. The term "seller" used below refers to the individual in possession of the product and who is offering it for sale. In the event that owners of Internet-based sales or auction sites are deemed by EPA or state authorities to be a "seller" under FIFRA or state pesticide law, they would have to register for an identification number and pay any applicable registration fees for those states into which pesticide products are distributed. Though some of the "due diligence" measures here are not required in conventional retail transactions (e.g., verifying applicator certification numbers or dealer registration numbers), they nevertheless represent a recommended standard of oversight to electronic transactions conducted remotely.

Product Stewardship Principles:

- For Restricted Use pesticides (RUPs), sellers and purchasers must submit information or keep records in compliance with RUP regulations, including an EPA pesticide registration number, a state dealer registration number, and/or an applicator certification number. (Some states may require certification numbers for purchases of non-RUPs, in which case the numbers must be submitted.)

- For sales of RUPs, registration/certification numbers should be verified by the seller and/or the owner of the Internet sales or auction site. (Sale or distribution of RUPs only to certified applicators).

- Registration/certification numbers must be held confidential, but must be accessible by federal or state regulators for compliance and enforcement purposes.

- Sellers and Internet auction sites must assure that pesticide products are registered with EPA and in the state into which they are distributed.

- Sellers must provide products with proper pesticide labels (with worker protection data) as required by federal law.

- Sellers are responsible for transportation in compliance with all applicable DOT hazardous materials regulations (for those products that are DOT-regulated HAZMATs).

- Sellers must provide MSDS sheets to re-sellers. Sellers must be able to provide MSDS sheets to purchasers that are end-users on demand. Buyers that wish to re-sell products must maintain MSDS sheets for the OSHA-regulated products that move through their inventory.

- Sellers and Internet-site owners must keep records of transactions for a reasonable time (per RUP regulations) with evidence that the regulatory/stewardship documents accompanied the product.

- Sellers must be able to provide the product to the buyer in full compliance with any applicable federal and state environmental, health and safety regulations, as well as any applicable state sales fees or taxes.

- Sellers that re-package must comply with all FIFRA bulk repackaging requirements (e.g., register establishment and include these volumes in their annual "production" reports to EPA (per federal regulation).

ARA Tip Sheet
Information to improve your operation
From the Agricultural Retailers Association
May, 2000

SERVICING CROP PROTECTION PRODUCTS

As sales increase of agricultural crop protection products acquired via the Internet and other alternative sources, it is more important than ever for agricultural retailers to be knowledgeable about how and where they are used. As an example, a farmer purchases and uses identical products, one which was acquired through an alternative source, and the other from the local retailer. The farmer applies the product and later has concerns with its performance. Does the concern involve the product acquired from the alternative source or from the local retailer, or both? This Tip Sheet builds on the product stewardship principles of the recently released ARA White Paper: "E-Commerce and Product Stewardship".

Product Service Tips:

- Retailers should provide clear policies to customers regarding the custom application and servicing of crop protection products acquired by customers through any alternative source.
- Retailers should keep precise records to identify crop protection products sold to farmers and/or applied in event of performance complaints (e.g., identify product serial numbers, field locations and amounts applied). As a retailer you have no knowledge or assurance that the product has not been contaminated or diluted, if purchased from an alternative source.
- Retailers should review warranties and stewardship product programs with manufacturers to ensure they will cover products purchased from a non-authorized distributor.
- Growers who have service or warranty problems with products acquired from alternative sources should be directed to contact the original sales agent.