

**Role of Third Party Exchanges in
Buying and Selling Wood Products**



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I. The Promise of the Internet

The Internet has created a new business paradigm called electronic commerce. Today, we refer to this as, eCommerce, eBusiness, Business to Business (B2B) or Business to Consumer (B2C). This presentation deals only with the B2B portion of eCommerce.

You have certainly heard a lot of hype about how the Internet is going to change the way you do business. Well, let's get one thing straight, right out of the chute; the Internet is only the delivery mechanism, it is not the solution.

So, what is the promise of the Internet? Some people say it amounts to three key benefits:

1. The Internet helps businesses run more efficiently.
2. The Internet collapses time and space, allowing businesses to eliminate geographic and time barriers.
3. The Internet can dramatically improve the way businesses attract, track, serve and retain their customers.

Those are very general statements, that, while they may be true, do nothing to help visualize or understand what the promise of the Internet really is, and how it might be applied to business in a practical setting. The purpose of this paper is to shed some light on how the Internet can be an effective tool for conducting traditional business practices more efficiently and cost effectively through a properly modeled Third Party Exchange.

To start, it is essential to recognize that it is the solutions available that allow a business to leverage the promise of the Internet. Although the Internet has been around for a while, eCommerce is still in its infancy. Likewise, many of the solutions available today are initial versions and are not very sophisticated; they can be complicated and often hard to implement. Furthermore, it is often difficult to determine what any of these solutions really offer, as opposed to what advertising fluff claims they offer. This is called "vapor ware" by the technical folks that have to make these solutions work in real life circumstances. All of this can make enabling eCommerce initiatives for any individual business overwhelming. A properly structured Third Party Exchange can be a good business partner to deliver the right solutions throughout the supply chain.

From my view, the promise of the Internet can be summed up by what I refer to as the 7 C's:

1. Communication
2. Connectivity (networking)
3. Community
4. Collaboration (b-web)
5. Content (information)
6. Cost savings
7. Collapsing time and space

Communication: This is simply the process of exchanging information. With an Internet connection, a browser and an e-mail account, we can communicate globally with little or no cost.

Connectivity: Here, we are concerned with how each company or individual is connected, not to the Internet itself, but to other individuals or enterprises. Over the past years, we have been connected via phone and FAX; now we have e-mail, virtual private networks (VPN) and other electronic networking capabilities. Today, it is possible for an enterprise to connect with each other between our back office accounting, inventory, sales and order entry systems. This is called Enterprise to Enterprise integration (E2E).

Community: Community embodies the concept of bringing people with common interests to a common location. A web site provides the perfect location for an online community.

Collaboration: This is the opportunity to work with other individuals or enterprises that are not otherwise immediately connected with each other. Through the connectivity of the Internet and the addition of some technology, trading partners can share information and work together to improve supply chain planning and process execution.

Content: The collection of pertinent information in one place without having to check multiple resources and locations is one of the most obvious benefits of the Internet. A web site can store and display volumes of content that is easy to find and readily accessible, thereby becoming a virtual online library.

Cost savings: These savings occur as a result of businesses being able to leverage their information technology (IT) investments through Internet based solutions thereby enabling them to network with their customers with modest investment. To begin, there are no usage fees as there are with phone or FAX transmissions. Next, connectivity can be initially achieved simply by having an Internet browser which is normally free and easily integrated with your computer hardware via modem or digital high speed connection.

Collapsing time and space: Reduction of time and space occurs by virtue of the Internet itself. The Internet is open 24/7 and has no geographic boundaries. Communication on the Internet is fast and reliable, by e-mail or other direct connections to trading partners; and there is never a busy signal that refuses your transmission.

So, how we unlock the promise of the Internet is the key. It does not happen just because the Internet exists. If it did, there would not still be the tremendous gap there is today between the promise and reality. And, the widest gap is between where the digital world intersects with the physical world. That gap is as apparent in the wood products world as it is anywhere.

Online commerce is only going to succeed when there is a seamless connection between the physical and digital worlds. A properly configured Third Party Exchange can unlock the promise of the Internet and deliver that promise to businesses in the wood products industry.

In my view, that is the role of a Third Party Exchange. To deliver the promise of the Internet to trading partners.

To understand how a Third Party Exchange can deliver, we need to understand as much as we can about the capabilities of the digital world and the needs of the physical world. Once that has been accomplished, there is a chance for success.

Third Party Exchanges that have not tried to understand both worlds and where those worlds converge will not succeed. It is essential that management of a Third Party Exchange have both the domain expertise of the particular industry or niche they are serving and the technical expertise of Information Technology (IT) to produce solutions that truly help businesses become more efficient in the way they already do business.

To understand these worlds, we need to start from the beginning.

II. What is eCommerce?

The Information Systems Audit and Control Association (ISACA), a technology standards association defines eCommerce as:

The process by which organizations conduct business electronically with their customers, suppliers and other external business partners, using the Internet as an enabling technology.

III. How does that differ from eBusiness?

Deloitte & Touche, a leading eBusiness consulting firm views eBusiness as follows:

Where organizations connect electronically to existing information technology systems and business competencies via the Internet and the World Wide Web.

IV. Understanding a Third Party Exchange

While eBusiness is limited to how an organization or enterprise integrates its internal business processes with the digital world, eCommerce encompasses the much broader scope of electronically integrating supply and value chain practices between enterprises (E2E) or businesses (B2B).

Sometimes called an eMarketplace, Net market or vertical hub, a Third Party Exchange is an outgrowth of B2B eCommerce. The primary purpose of an exchange is to connect buyers and sellers. In the very basic form, an exchange may be no more than a “match maker” or “dating service”. In the most useful form, the exchange will offer deep enterprise to enterprise (E2E)

integration and useful tools for supply chain integration and management. The models for exchanges vary greatly, and it behooves the potential participant to understand what a particular exchange may or may not provide before joining. Matching the business needs of an enterprise with the tools offered by the exchange is critical. If the exchange does not have those tools in its arsenal, then it is not the right exchange for you.

a. An exchange is just another business tool

The concept of an exchange is nothing new to business. The trading exchange format has existed in the physical world since the beginning of commerce. For thousands of years man first brought his wares to sell at centralized public market. To this place, all buyers came in search of products and negotiated prices.

The advent of new communication devices and delivery mechanisms allowed commerce to decentralize over time. As the telegraph, telephone, telex and FAX were introduced and embraced by business as a tool to facilitate business processes, commerce began to spread over larger geographic distances. Then the train, automobile, airplane and other transportation methods began to move products between those locations at commercially affordable rates and times. This evolved gradually to the point where we have conducted commerce the way we have for the last hundred or so years.

An electronic exchange is just another market channel to the traditional market channels we have dealt with in the past. As long as the exchange is only positioned to facilitate business, then it can be a valuable tool. If the purpose of the exchange is to get between you and your trading partners, then it ceases to be a tool, and becomes an impediment.

Beyond helping with bringing buyers and sellers together, a well positioned Third Party Exchange will bring supply chain fulfillment tools to the table as well.

b. Types of Third Party Exchanges

According to Deloitte and Touche, there are four basic exchange models, whether third party or consortia led:

Disintermediary:

An exchange may take the strategy of eliminating the role of one or more traditional supply chain or value-chain participants. While this model can bring a real opportunity for savings as a result of bypassing some supply chain participants, it is also risky. This model has been embraced in some industries, but is unlikely to be in the wood products industry. By and large, the supply chain participants in place today are there because they create value to the transaction; not because the chain is so fragmented that there is room for unnecessary participants.

Reintermediary:

This model seeks to enhance the value of existing supply chain participants within an industry. Generally, this exchange transfers greater responsibility to the same supply chain players that the disintermediation model seeks to cut out. Where the trading partners perform value added services for each other, this model has a great opportunity for collaboration and connectivity. This is a viable model for the wood products industry.

Utility Provider:

Here, the exchange is working more as a collaboration hub than a commercial exchange for buying and selling products. This type of exchange works well in the building construction industry where the goal is to bring value chain participants together to share and exchange information. Here, the focus is more on project related concerns than supply chain issues, such as a forum for engineers, architects, project managers and building contractors to share information-based processes on a particular project.

Market-maker:

This model is where you find the industry consortia exchange, where power is concentrated in a small group of large companies that have an equity stake in the exchange. These exchanges are normally buyer centric or seller centric. Covisint, the automotive exchange comprised of Ford, GM and Daimler-Chrysler is a prime industry example of a buyer centric consortia. There does not seem to be much question that they hold substantial power in an industry with few other players, and where they can demand that suppliers sell through their exchange. The same does not seem to be true for consortia that are seller based in an industry that has a substantial number of suppliers and even more buyers, such as the wood products industry. In an industry where the majority of the sellers are not equity participants in the consortia, and the buyers that are not owners as well, it seems substantially more difficult to push product through the supply chain.

c. Types of eCommerce sites that are not exchanges

Content Aggregator:

By far the most eCommerce sites available today are strictly content aggregators. These companies provide information exclusively. There is no transactional capability, nor is there any connectivity offered between trading partners. A visitor simply goes to the site and looks for informational content.

Match-maker:

The match-maker usually calls itself a marketplace. It is normal to find content as well. The eMarketplace is not, however, a transactional format. Companies or individuals can post products and items for sale or wanted, much the same as a classified add section in the newspaper. From there, any transactions that may occur do so by telephone, e-mail or FAX. There is no functionality and no procurement facilitation by the eMarketplace. These sites may also act as a content provider.

Auction:

Simply put, this is where companies can post products for sale to the highest bidder. It may take the traditional auction format of the “Dutch Auction” where sellers post their products for sale or it may be a “Reverse Auction” where buyers put out requests for quote to a large group of suppliers and take the lowest bid.

Again, these sites may provide content in addition to the buy-sell component. Normally, these auctions do not really facilitate the transaction beyond matching buyers with sellers. These transactions are generally handled offline.

Collaboration Hub:

These sites work well in construction industry applications or in educational or governmental situations. Here, the visitors to the site are looking to share information with and between other visitors.

Translation Hub:

The primary object of the translator hub is simply to help companies connect with each other via the Internet, to communicate and exchange business documents electronically. In most cases, the purpose is to allow trading partners that normally could not exchange trading documents electronically, to do so via this hub. This is a very functional process for the wood products industry, but is limited to the process after the purchase has been made; often times, offline.

V. Value Propositions (where can an exchange help in the wood products industry?)

There are essentially two schools of thought currently on what the real benefits of a trading exchange are to buyers and sellers of wood products. The view from the people who operate the exchange, and the view from industry. How closely those two views resemble each other depends on how well the exchange understands the industry, and how well the industry understands an exchange. In many cases, there is a wide separation between those views.

In an attempt to understand what the industry is thinking about exchanges, World Wide Wood Network, Ltd., and Louisiana State University teamed up to make two different studies in 2000. One study was on the primary and secondary softwood manufacturing sector and the other on the National Home Center sector. We also paid close attention to the study performed in 2000 by the North American Wholesale Lumber Association (NAWLA). Then, we overlaid that information with Forrester Research, Inc., findings about US Industry as a whole. Finally, we incorporated information we gleaned from discussions with executives and sales people from more than 30 wood products companies. Here are those findings.

Based upon the wood products industry studies, the primary values a Third Party Exchange could offer are:

1. National and Regional Price Trends
2. Order status and tracking information
3. Truck and rail car tracking
4. Viewing supplier offerings online
5. Locating products by seller, location and price
6. Make multiple product inquiries at one time
7. Industry news and information
8. Notification of supplier offering updates or changes
9. Notification of buyer inquiries for product
10. Place orders across product lines
11. Receive payment online
12. Supply chain optimization

According to Forrester Research, the reason that US companies, in general, participate in Third Party Exchanges or eMarketplaces are:

1. Improved transactional processing efficiency
2. Reduction in product costs
3. Improved information access and flow
4. Reduction in rogue purchasing
5. The supply chain is streamlined
6. Service is improved

The primary value propositions we found when talking to wood products company executives and sales managers face-to-face, depended largely upon whether the company is a supplier or buyer, and the degree of Information Technology (IT) initiatives within the company; if any. Still, there were some generally recurring themes. This list does not attempt to rank them in terms of importance, only that they are the ones most often mentioned.

1. Gaining reliable and real time product price reporting
2. Connecting, communicating and collaborating with your trading partners electronically (E2E)
3. Improving channel selection
 - a. Another point of market entry for buyers
 - b. Another sales channel for suppliers
4. Improving transactional processing efficiency
5. Supply chain optimization: shifting traditional inventory, sales, and supply chain strategies:
 - a. buy-hold-sell
 - b. sell-source-service
6. Industry news, information and statistics
7. Shipping and order tracking
8. Credit checking
9. Online payment

Personally, I firmly believe the principal value propositions of a Third Party Exchange are connectivity, collaboration and communication. Those three values reduce time and errors. This, in turn, reduces transaction costs.

The primary cause of marketplace or supply chain friction is transaction costs. There are three primary transaction cost factors:

1. Search Costs - finding products and companies who provide services.
2. Contracting Costs - negotiations and fees paid to outside providers.
3. Coordination Costs - time and effort to bring together supplies, labor, etc.

In the old days (1930's) Ford and GM had to have the total supply chain captured internally, essentially due to lack of communication and connectivity. They could not rely upon outside suppliers. If others made products or performed services they needed, they could not find out about it, or if they did, the costs associated with having outsiders provide the product or services was much higher than they could replicate internally.

These companies moved away from a centralized or internalized concept with the advent of the telephone and better transportation methods. This allowed them to create a network of suppliers. So, when the cost to do something internally was more than doing it outside the company, they could more efficiently have it done outside.

Today, the Internet has allowed these same companies to move these functions to the Web (business web, or b-web), which they are doing by their consortia exchange called, Covisint.

Interestingly, this allows these companies to come full circle and revert to centralization again; bringing all purchasing functions into one electronic marketplace.

The idea of the b-web is where clusters of business' come together via the connectivity of the Internet to collaborate with each other in an effort to improve supply chain and value chain activities. This b-web is based on the same principal as a Third Party Exchange.

In case there is any confusion, supply chain activities are comprised of the transactional process that occur between trading partners in the buying and selling of products, called direct materials. The value chain deals with the activities and transactional processes between supply chain companies and those they do business with for indirect products, like office supplies and equipment.

According to some economists, the b-web is displacing the corporation as the primary unit of business today. In the industrial age, production was the primary business activity. Today, due to technology, we are moving from being production centric to fulfillment.

In the technology age, fulfillment becomes the primary business activity. Therefore, the b-web turns the chain upside down and becomes a demand chain where customer orders drives the business activity. Thereby, fulfillment of customer demand is the key. This is more than just tossing the customer a product; it is also about improving customer relationships.

A properly constructed trading exchange can enable the creation of the b-web in the wood products sector and help wring out transaction costs. This not only removes or reduces friction in the supply chain, it will allow wood products

companies to produce for the needs of the market they serve, rather than to just cut for inventory. By matching demand to supply, companies can reduce inventories and time to market, while increasing price and customer satisfaction.

VI. What are some important considerations when choosing an exchange?

Again, based upon our studies and talking to people in the wood products industry, we found a variety of issues on people's minds. Some of the considerations mentioned most often are:

1. Neutral and Independent vs. Consortia Led
2. Open application (translation and standards)
3. Market liquidity vs. Connecting existing customers
4. Connecting disparate back office systems
5. Security throughout the process
6. Fees and costs
7. Backing a winner
8. Industry experience in management
9. Staying power (will they be here tomorrow?)
10. Strategic partners (who do they collaborate with?)

11. Intuitive and simple process (usability)
12. Interference with relationships

Forrester Research, Inc., researched companies using Third Party Exchanges and asked what the most important factors were in choosing a particular exchange. Listed in order of priority, these companies indicated the following:

1. Neutrality of the exchange or marketplace
2. Usability
3. Fees
4. Participation of existing vendors
5. Integrated logistics (shipping and order tracking)
6. Supply chain collaboration
7. Equity participation
8. Community and content features
9. Integrated financing

After studying the needs of the wood products industry and the capabilities of the technology available to meet those needs, it appears to me that the primary considerations for this industry in choosing a Third Party Exchange is as follows (ranked by order of importance):

1. Management and ownership must have domain expertise
2. Must not be built on a disintermediation model; must be open
3. Staying power
4. Technology platforms must be solid (best of breed)
5. Must be able to connect to disparate back office systems (E2E) of existing trading partners through deep integration
6. Process is intuitive and simple
7. Must be able to enhance relationships; not interfere with them
8. Supply chain collaboration capability
9. Community and content features
10. Shipping and order tracking
11. Fees or costs must be in line with industry margins; certainly not in excess of .5% and most likely around .25% on average

VII. What are the primary concerns people express about Third Party Exchanges?

The overriding concerns of most people in the wood products industry in utilizing a Third Party Exchange are:

1. Loss of personal relationships
2. Price compression
3. Security of information
4. Negotiation process is too slow

Loss of personal relationships:

There is an overriding fear, particularly among sales staff, that the Internet and Third Party Exchanges will remove personal relationships from the daily business routine. Although that concern is voiced often, it is a position borne from a lack of understanding of the benefits of eCommerce and how it really works at the trading level, rather than a factual concern.

First, by taking advantage of the transactional processing efficiencies provided by a properly set up Third Party Exchange, a salesperson will have more time to devote to his customers. Second, by removing some of the mundane tasks of data entry for purchase orders and contacting shipping companies, there is additional savings in time. This time can and should be used to deepen customer relationships. Take time to find out what the real needs of your customer are instead of focusing on making the deal. Making the deal is not the art, getting the customer base is. This is done by taking time to understand what your customers needs are in terms of products and service.

The starting point of all transactions between commercial parties is the existence of a relationship. This is essential in the B2B world, where it is not essential in the B2C world.

The relationship alone will not carry the day, however. The seller must bring value to the table, either in products or services. Without a meaningful value in the marketplace, there is no incentive for someone to participate. And, value is not about price alone.

The same principal holds with B2B eCommerce; first there must be a relationship with the customer, and next there must be value to the customer.

People often ask; why would anyone let someone come between you and your customer? These people see a Third Party Exchange as a wedge in your supply chain customer relationships. This kind of argument could also be made against the wholesale distributor - why would manufacturers want to use a wholesale distributor when they could sell direct to the dealer or builder? The answer to both questions is, because they add value.

A Third Party Exchange does not have to come between you and your customer - it should be a facilitator and should not get in your way. A properly modeled exchange will allow you to

deepen your relationships and will connect you to all your customers regardless of disparate back office systems or product attributes.

Some exchanges make the mistake of using a B2C model when they are really trying to work in the B2B world. In a B2C model, any person with an Internet connection and a browser can access the information on a website. That simply is not acceptable in the business world. Just as a receptionist screens phone calls or access to a business' office, a properly modeled exchange must have business rules in place that allow its customers the privacy they demand, and to conduct business the way they want, with whom they want. It is good practice to find out if the exchange allows you to exclude or restrict companies or groups from accessing product and price information on the exchange, or from making an offer to buy or any form of solicitation. That privacy is a duty owed by the exchange to their customers.

Price compression:

I have heard concerned suppliers talk about electronic trading exchanges many times. The thread of the conversation goes something like this:

“Okay – let me understand this – I put my inventory on your exchange so all my buyers can see my products and prices along with the products and prices of my competitors, and then they beat me up on price to get my order – and, for that I get to pay a fee – what am I missing?”

The answer is obvious, however. If your product is only sensitive to price, then you have more problems than having your products on an exchange.

A company differentiates its products from those of its competitors by quality, service and relationship; not price. Price is the function of what someone will pay for your product based upon these factors; not just that it is least expensive. Sure, there are buyers who shop price alone, but in most cases those are not your priority customers anyway.

Here is an example I remember well from my manufacturing days. My father always believed it was important to maintain a superior quality product and first class service. That is the mantra I grew up with. When we built a high-tech small log mill in 1979, I made the decision to maintain that manufacturing philosophy. At the same time, other companies were worried so much about lumber recovery factors (LRF) they began to produce more products with more wane, less sawing accuracy within the board, and more face skip. Our product was full sawn, minimum wane, no face skip and premium quality in grade and appearance. We always got a premium price for our product, and we still had great LRF. Our buyers paid the premium because their contractors had fewer pullouts on the jobsite, so they preferred our products over our competitor's products. Not only did our competitors receive a lower price, they had more trouble moving their inventory, and had longer inventory turns than we did.

The bottom line is, even if your customer can see what prices your competition is willing to take, if your quality, service and relationship bank account is full, you will get your price as long as it

is not out of line in the existing market. After all, they do call around on the phone checking prices with your competitors already.

Suppliers should always remember that the marketplace is not driven by supply. It is driven by demand. And, the demand for your product is what drives your sales and your price. You can't push your products up the supply chain.

That being the case, buyers have the clout. And, the buyers are looking more and more toward embracing electronic commerce. If a supplier does not embrace the advantages of technology in its business process the same way it must embrace technology in the manufacturing or distribution process, the supplier will not be a ready player in the market when its buyers demand it be eCommerce enabled.

There is also the point that any effect in price is offset by exposure to a broader market. Just because you have sold everything you produced the past three years does not mean you got your products in front of everyone that is a potential customer; or that you received top dollar for your product. It is no secret that sales personnel often favor long time relationships over other customers who may be willing to pay a higher price, or that it is virtually impossible to contact all the available buyers in any given business day.

By selling products over an exchange, not only can you get your products in front of your target market every day, sales performance can be monitored by management through reports provided by the exchange.

Security of information:

We all are concerned with security. We lock our homes, cars and offices, even our brief cases, to ensure others do not get open access to our valuables. The same holds true with computers. To keep unauthorized users from accessing files or applications on your computer, you can start by utilizing password protection so no one but you can gain entry into your computer system. And, if you want, you can take another step by encrypting the information in your files. But, what about the security and safety of your information and applications when you are hooked up to the Internet? How can you keep the general cyber-public from gaining access to your system, files and information?

The first phase of Internet security starts with you accepting responsibility for your own security. You can begin by installing a firewall between your Internet Service Provider (ISP) cable connection and your computer. A firewall can be hardware or software that is configured to filter incoming and outgoing Internet traffic according to a set of rules that you can set. This will keep unwanted visitors out of your personal computer (PC) or corporate network when you are "on the net". And, depending on the configuration, a firewall can also ensure that information cannot be extracted from your files or sent out by unauthorized transmission. This is the first line of defense to the Internet Hacker or other Internet Pirates looking to gain access.

You should also include some type of anti-virus protection that can be automatically updated as prompted by the solution provider. This protection can be set at the individual PC or on the

Network of each organization.

Anti-virus protection software scans incoming traffic, including e-mails and files attached to e-mails, to ensure no unwanted traffic gets into your computer system from people who are trusted sources that you normally allow entry through your firewall. This is important, as most of the virus problems you read about have been passed between trusted sources unwittingly.

Finally, you can protect your privacy by using a proxy server. A proxy server is another software application. It acts as a shield between you and the Web sites you visit. The site only sees the information about the proxy server. It does not capture any information about you.

Now that you have taken the measures to secure your computer and systems, how can a Third Party Exchange keep your transmissions and transactions secure and private?

That depends on how the exchange has set up its servers and the business rules it has in place to ensure privacy and security of your information.

As a starting point, an exchange bears the responsibility to ensure your privacy and integrity of your information. A properly structured exchange should have its servers physically located in a secure, remote location, that has redundant communication backbones, redundant routers, a back-up power supply, and an operating environment that is free of risk from fire, flood, lightning and earthquake. Then, the servers must be located behind an industrial strength firewall, with appropriate switches and routers that ensure the safety and integrity of the information stored on those servers. Access to this information must be password protected at a minimum, and should be encrypted as well. Then, all transactional information should be held within some type of secured environment, such as a secured socket layer (SSL).

Then, the exchange should have business rules in effect that allow you to select or restrict who can access your information or do any business with you, just as you do in your traditional business process. Enforcement of these business rules is a must, so don't shy away from asking how the rules are enforced. You must feel comfortable that your information is secure and your privacy protected in the way you require.

In short, the tools exist to ensure security and privacy while working with a Third Party Exchange. Make certain you take the time to verify how the exchange is specifically structured for security and privacy protection. A glowing, self-serving statement by the exchange is not adequate assurance.

The process is too slow:

The negotiation process is more than just making the deal once you are on the phone with your trading partner. Unless you forget how many customers you have to call during the day to find out what products they have and what price they want for the products, and then to make sure to call enough of them to figure out where the market is that particular day, this should be obvious, not to mention the time wasted on "telephone tag". Still, people tell me all the time that they can make a deal on the phone faster than on the Internet.

Certainly, there is not a more efficient way for two people to negotiate a deal than while they are connected on the telephone. And, while they are talking with each other, the communication can be rich with information. Although making the deal is of unquestionable importance, it is not the most time consuming part of buying and selling products.

Probably, the most telling argument for the efficiency of an exchange can be easily seen in the concern that sellers have over price compression. Because a buyer can perform a search for products and find a listing of many companies selling the same products for different prices in a matter of minutes or less, it is obvious an exchange is an efficient way to find who has what products, and at what prices.

Traditionally, people shop price over the phone during the day prior to making any decisions on whom to buy from or sell to. This takes time, lots of time, just to find out who has what products available and at what prices. An exchange cuts through all this wasted time on both ends, and allows a buyer to get straight to the transaction, leaving more time for customer service and improving relationships.

Similarly, where a seller can access and communicate products for sale, along with the price, location and volume available, to many buyers at a time in one easily and quickly identified location, salespeople can significantly reduce the amount of time traditionally taken to perform this same function.

If an exchange is so efficient to cause such a stir over price compression, why is it that people want to argue it is not efficient for buying and selling? The reason is, they forget there is more to buying and selling than just making the deal.

There is a front end and back end to all transactions. This is often referred to as pre sale and post sale. Most of the time a salesperson spends each business day devoted to pre sale and post sale functions. A properly structured Third Party Exchange can take a significant portion of those mundane functions out of the daily routine, freeing up time; not taking more time.

In the pre sale portion the following concerns must be dealt with:

From the Buy Side

- Establish the need for a product
- Select suppliers with that product
- Contact suppliers for availability
- Determine market price
- Make contact with selected supplier

From the Sell Side

- Inventory products
- Identify product availability
- Find buyer or field buyer inquiry
- Check buyer credit limit
- Determine market price
- Make contact with buyer

During the post sale process, at a minimum, companies have to perform the following functions:

From the Buy Side

- Create purchase order
- Receive order acknowledgment
- Select proper shipper
- Contact shippers/Arrange shipping
- Track order and shipping status
- Receive and enter into inventory
- Input Invoice from Seller
- Process payment

From the Sell Side

- Create order acknowledgment
- Input purchase order
- Pre-shipping logistics
- Load and ship product
- Create invoice
- Receive and input payment

Most of these transactional processes can be speeded up, reduced or eliminated by a Third Party Exchange, freeing up time and saving money for Buyers and Sellers. Making the deal is the easy part.

VII. Channel Selection: What products are best suited for an exchange?

There is a lot of confusion by people in the industry about what products are best for selling on an exchange. Someone will comment that they can see how custom products would do well, but not standard products like dimension lumber and panels. That comment usually comes from people selling standard products who do not want to see how their products would actually sell well on an exchange.

Then, there is the person who sells highly customized products, like architectural wood, who says there is no way those products could be sold on the Internet; that there is simply too much handholding with the customer, or too much unknown about product attributes from one order to another. These people believe standardized products are best suited to the Internet.

So, who has the right spin? Pick up any book that discusses channel selection and you will find the answer. The discussion will go something like this:

Standardized products are configured for a particular market; not a particular customer. These products can be sold in any channel and should be pushed down to the lowest touch channel. The Internet is the lowest touch channel available today. Even proprietary products that can be easily defined and selected by common or standardized specifications can be moved to low touch channels as well. If you have done your job marketing your products to your customers, they know if your product has some proprietary characteristics.

Custom products require high touch channels (internal direct sales force), as those products must be configured to meet customer needs. These are the products that require the keen attention of your sales force.

To maximize channel selection, a multiple channel sales initiative must be adopted. Leverage your sales force into pursuit of higher value, more complex accounts and transactions and move the more standardized, less complex sales to the lower cost channels; i.e. Internet. By doing this, you give your sales people the opportunity to focus on acquiring and building key accounts and relationships. In other words, let your sales force develop a "sweet spot" where they can get maximum advantage of their time and talents.

Further, by using low cost channels to offload "low value" selling tasks, such as presale and post sale support items like credit, shipping, and fulfillment, your sales peoples time is freed up so they can focus and hit the sweet spot. And, by providing more extensive technology support to your customers, you will have more time to learn more about the market, what is happening that affects the industry and customer, etc.

By moving standard, low touch products to a Third Party Exchange, you can redirect sales force activity to the areas that require more customer interaction. This increases customer satisfaction and improves relationships.

IX. What sector of the supply chain is best suited for using a Third Party Exchange?

This issue is subject to much argument. Some argue that sellers have the advantage in using an exchange since they can get their products out to a wide population of buyers. Others believe buyers have the advantage since they can see what products many sellers have to sell in one location and then pick the one with the lowest price.

In my view, the value propositions offered by a properly configured Third Party Exchange inure to the benefit of sellers and buyers alike. Whether it is reducing transactional processing costs, eliminating data entry errors, helping in coordinating shipping logistics, order tracking, or enabling just-in-time inventory control at all levels of the supply chain, both sides of the transaction win.

Probably the companies that can take maximum advantage of the opportunities offered by a Third Party Exchange are those that both buy and sell products. In that case, stocking distributors and secondary product manufacturers are well placed to benefit on both sides of the transaction with their trading partners. They can take advantage of the value propositions of a Third Party Exchange on both ends of the transactional process.

X. How can you maximize your business with a Third Party Exchange?

Getting ready to do eCommerce with your trading partners is best done by first adopting an eCommerce strategy within your company. This strategy really needs to be embraced throughout the company. Taking a holistic approach to eCommerce will allow adoption within your entire organization. Without that, even the most well thought out strategy can fail miserably.

Part of that strategy needs to include making a commitment to integrating the various and often disparate software applications within your company's back office systems, as well as becoming connected with your trading partner's systems.

Application to Application Integration (A2A).

Most company's internal software applications have been purchased without regard to whether those systems can communicate with each other. More often than not, the information stored in one application cannot be transferred to or assimilated by another application. Solving that problem requires substantial technical expertise and usually, additional software. Integrating your internal applications is referred to as A2A integration or enterprise application integration (EAI). To take maximum advantage of the solutions offered by a Third Party Exchange, it is best to have your internal applications fully integrated. This way, information and documents passed electronically between an exchange and your company can be distributed throughout your back office system with minimal human intervention, if any. This not only enables a company to reduce transactional processing costs even further, it also ensures accuracy of data throughout their internal systems.

Enterprise to Enterprise Integration (E2E).

Sometimes referred to as inter-enterprise integration, E2E is where you connect electronically with your trading partners and integrate your applications with their back office system. The process for doing this is similar to A2A integration, but is complicated further in that most trading partners will have totally different systems in their back office. Just as different manufacturers rarely use the same machinery or configuration in their manufacturing process to make the same product as their competitor, it is unusual for different companies to have software applications based upon the same operating format or possessing the same language protocols. So, to overcome this problem, it becomes necessary to translate between those disparate systems and applications.

Prior to the Internet, this type of connectivity could only be accomplished by incorporating cumbersome and expensive Enterprise Resource Planning (ERP) software solutions with high cost networks over secure, dedicated, leased lines called Value Added Networks (VAN). The electronic format used to communicate over a VAN is referred to Electronic Data Interchange (EDI). EDI is often cumbersome to implement and can impose significant connectivity expense. For these reasons, EDI has historically been an option only for large companies with deep pockets. Even then, EDI requires trading partners to agree on the same format for the documents they transmit. And, as you might expect, EDI is not always the same, so just because one company has EDI capability, another company that is EDI enabled may not be able to communicate directly with the other company.

A properly structured Third Party Exchange will have invested in technology that bridges this EDI gap, as well as allowing E2E integration and communication in other formats, like XML (extensible markup language) or FTP (file transfer protocol). Often, this type of exchange is referred to as a translator hub. The ability to perform this translation process and to speak to virtually all document formats and language protocols is essential today to ensure deep integration between trading partners. Until communication formats are standardized throughout the wood products industry, the ability for companies to exchange documents and communicate electronically with each other without a Third Party Exchange, or some other type of translation hub, will remain a huge problem that will be very costly and difficult to overcome.

XI. Exchange to Exchange (X2X) Integration.

In all likelihood, there will be several Third Party Exchanges serving the wood products industry. Each one will have particular characteristics that may be different from other exchanges operating in the same space. Some exchanges may operate in a special niche, like softwood or hardwood only. Some may use an auction format, while others will offer the traditional offer and counteroffer transaction between an identified buyer and seller. One exchange may be industry consortia supported, while another may be independent and neutral. Or, an exchange may be buyer or seller centric where others may be open and merely a facilitator.

Whatever the model, the problem lies not only in figuring out what exchange is best suited to your business methods, but in trying to do business with one of your traditional trading partners that prefers a different exchange than you. In either case, you will need to find an exchange that

is connected to the other exchange (X2X), and can allow you to do business between exchanges; thereby allowing you to do business with any trading partner you choose, regardless of the exchange they participate in.

Today, exchanges in the wood products industry have not evolved to the point that they collaborate with one another. However, there are initiatives currently ongoing between existing exchanges to begin this process. The connectivity that applies between enterprises and exchanges is built around the same foundation that enables connectivity and collaboration between exchanges. X2X integration will become an important evolution in the successful adoption and implementation of eCommerce by industry participants.

XII. Do what you do best and buy the rest.

I have heard some companies talking about creating their own exchange, where they can do business directly with their existing customers. While this discussion itself is not surprising, the idea of a company wanting to spend several million dollars to create their own exchange is surprising. Already wood products companies are saddled with a capital intensive business where ROI is always under close scrutiny. Putting your capital to work in the most cost effective and efficient manner is not easy, even when you have the underlying core competency to understand the investment and technology involved. This is the very reason why few distributors build or operate manufacturing facilities, or why producers generally do not get involved in down chain direct distribution.

A properly configured Third Party Exchange can unlock your existing IT investment by leveraging the investment made by the exchange in the solutions offered. You don't need to make the investment of time, money and personnel to sort out how to design, develop and deploy an eCommerce solution for your business. Bridging the gap between the technical world and physical world is hard enough without bringing the two cultures together under one company that embraces the physical world as its core competency.

So, why would you want to spend millions of dollars on capital investment necessary to hook up to all your customer's disparate systems? Put that money where you can best leverage it within your corporate expertise. In other words, "do what you do best; and buy the rest."

XIII. Who will be the winner?

This is not a winner take all proposition. There will be a variety of eCommerce providers that provide value in different ways to different companies.

The wood products industry is a big industry. Different companies have different needs and preferences. Different suppliers offer specialized services to meet those needs and preferences. Where an eCommerce provider presents value to business, it will find a place in the value chain and will be supported by those utilizing the services offered. The key will be for eCommerce providers to find a value proposition that can support a return on their investment so they can reach profitability and long-term success. The industry will only support value propositions within a limited cost structure, so exchanges that charge fees that are too high will not succeed.

Although each company's profit margins differ as widely as their business processes or computer systems, most wood products companies operate on net margins from 1 ½ % to 3%. That being the case, the industry is not going to embrace fees that are in excess of that net margin. Industry studies have shown that an average range for transactional fees that might be embraced resides in the .25% area.

There will be failures and consolidation, just like in any industry; this is nothing new to any business sector. But there will be a number of eCommerce providers, just like there are a number of different manufacturers, distributors, and dealers. It is up to you to choose the one that fits.

XIV. Conclusion

A Third Party Exchange can play a valuable role in the buying and selling of wood products if properly modeled. It is another tool to help you conduct your business, just as is the telephone or FAX.

The real benefits to be gained are in unlocking the promise of the Internet by bringing the digital world together with the physical world with technical solutions that have real world application to trading partners and the supply chain that services them. Accomplishing this requires a deep understanding of the wood products industry on the part of the Third Party Exchange, coupled with best of breed technology that delivers the capability of deep Enterprise to Enterprise (E2E) integration in a secure environment. It is not enough to simply be a "match-maker".

Get you own house in order. Adopt a holistic approach to eCommerce within your organization. Then, focus on how you can optimize your supply chain and improve customer service and satisfaction. Find the exchange that can help you do this. The benefits will flow throughout your company if you select the right Third Party Exchange.