

GCSAA Internet Commerce Meeting

Outcomes Summary

The GCSAA Internet Commerce Industry Discussion Meeting was held at GCSAA Headquarters, Lawrence, Kansas on April 16-17, 2001. The materials presented at the meeting can be viewed at <http://www.terline.com/gcsaa>.

The goals of the meeting were to introduce the GCSAA net market technology supplier partner XS Inc.; preview the initial capabilities of the defined commerce pilot; solicit feedback and better understand the impact on manufacturers and their distribution chain, and provide a forum to pose and answer questions.

The meeting and its purpose were introduced. A discussion of why GCSAA is augmenting their membership offerings with Internet commerce, and the process and rationale for selecting XS Inc., were presented. This was followed by a detailed discussion by XS Inc. of its background and experience, the technology platform and capabilities they are providing, and how suppliers can leverage these capabilities. The discussion continued with details about the commerce pilot, and targeted buyer and seller benefits. The remainder of the meeting was focused on identifying and discussing issues and concerns, and gathering industry feedback.

After a brief description of the commerce pilot, these issues are discussed.

Commerce Pilot

The purpose of this pilot or "soft launch" is to provide an "initial (real) potential solution" to enable buyers and sellers to:

Experience the possibilities of Internet commerce first hand;

Determine the "value" opportunities for themselves;

Guide the development of future offerings to the broader market; and

Decide if the GCSAA organization, an established trusted third party, can be of value in bringing the benefits of the Internet to buyer and seller members in this market.

The initial product group selected is plant protectants. The pilot will last approximately 60 days. On the buy-side, approximately 300 superintendents will be invited to participate in the Pilot, and on the sell-side, it is open to all suppliers.

The pilot, as described in the meeting, will consist of two major capabilities:

The Golf Super-Market - a neutral exchange where sellers can list their products (either anonymously or using their name) and buyers can bid to purchase items. Initially, only fixed price listings will appear on the exchange. As a buyer's option, a function called "Name Your Price" can be used. This allows a buyer to identify a product and what he

is willing to pay to acquire that product. Sellers can respond to the buyer's request with the appropriate bid to secure the purchase. XS Inc. handles the financial transaction, and subsequent fulfillment (delivery).

The Golf Super-Store - a web-based storefront where suppliers can list their products, transact business, and handle the fulfillment themselves.

The initial capabilities and their details were described at the meeting.

Key Issues

A number of significant issues emerged from "why is GCSAA in commerce?" to "what is the performance and capacity of this capability?" A discussion of these issues follows.

Why is GCSAA offering Internet Commerce as a membership service? Is it consistent with the mission of the association? Is this a conflict of interest for GCSAA?

Serious investigation of the benefits of Internet commerce for our members was recommended first by a supplier focus group in August 1999 and then by the superintendent member-based Web Strategy Committee in June 2000; the GCSAA Board of Directors subsequently approved that direction. Both groups (suppliers and superintendents) believed that GCSAA was in the best position to take the leadership role in providing the one-stop shop of services in support of the superintendent, and that this service offering, if designed appropriately, would complement existing information content and membership services. They believed that it was consistent with the organization's mission, and was a major element of GCSAA's strategy to:

Leverage the Internet to provide member support anytime (24 -7), anywhere (globally), and

Provide a one-stop Internet location where superintendents can manage most aspects of their jobs and career.

Is this a potential conflict of interest for an association, a trusted third party?

Again, it is believed that this offering is being developed for the right reasons (see above), and that Internet only provides a venue, much like a tradeshow floor or publication, for sellers to provide information to buyers. It is provided as a service, voluntarily, to buyers and sellers who choose to participate. It appears universally believed (by GCSAA, superintendents and industry) that the Internet will not, and should not, displace valued pre- and post-sale service and support, and that many companies have already begun to investigate the tremendous functional power of the Internet in service to the buyer.

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What are the downstream effects of Internet commerce on the superintendent, manufacturers and distribution?

This is the question that we, and others, have been routinely asking ourselves. Most believe that significant change over the long run is likely; however, the emotions related to that speculation range from concern, anxiety, and hostility to optimism and excitement.

In an effort to gain greater insight from both buyer and supplier members, GCSAA is planning another Internet commerce meeting in mid-June 2001 (tentatively June 11 afternoon and June 12 morning). We plan to use an outside facilitator to work with us all to reasonably predict the likely outcome scenarios regarding the following questions (and others that will be identified):

What are the likely long-term benefits and impacts on superintendent services?

What are the likely long-term benefits and impacts on manufacturers / suppliers and distribution?

What are the likely long-term benefits and impacts on GCSAA?

Is the GCSAA gaining financially from this service offering? What is the advantage to a GCSAA affiliate or superintendent member?

GCSAA, through its subsidiary GCSAA Communications, Inc., does have a net revenue sharing arrangement with XS Inc. The organization seeks financial support in various ways through most of the agreements it enters into, and uses those funds to support and provide the many other programs and services that do not pay for themselves. These include superintendent profession image efforts, career development, government relations, chapter services, information and Web site services, education development, environmental stewardship, and others.

Many advantages of this Internet commerce offering to GCSAA affiliate and superintendent members, aside from knowing that all such proceeds are directed back into services and programs benefiting the superintendent profession and industry, are described below. A few overall thoughts, however, follow:

As a result of the rigorous process that GCSAA has undertaken, and the collaborative nature of GCSAA, both buyers and suppliers have input in shaping the ultimate Internet commerce service offerings. Because of the significant amount of concern and anxiety brought about by the Internet and the inherent change at this point in history, this may be of significant value.

If approached by both buyers and suppliers as an opportunity to manage this change, with an appropriate sense of cautious optimism, there is real economic value potential for many buyers and sellers. However, this will not likely be for everyone, and again those not finding real value may choose not to participate.

What is neutrality? Can GCSAA maintain neutrality in

commerce?

The association's selection of XS Inc. as a provider of Internet commerce capabilities is one of creating a valued service for its membership through a technology-oriented capability. Although commerce will be conducted through this capability, the association's position is one of neutrality. Neutrality means that the association does not endorse any vendor or product in any shape or manner. The Golf Super-Market and Golf Super-Store are venues (on the Internet) where suppliers and buyers can come together, and a buyer's need can be matched by a supplier's specific offering. Again, a functional venue is being provided; GCSAA is not taking title or making buying or selling decisions.

What capabilities will be provided in storefronts and why would I make the investment to use them?

A storefront in the Golf Super-Store provides the supplier with an instant Internet-based presence. Within a storefront, products can be listed, prices managed, and information conveyed to existing and prospective customers.

The Golf Super-Store storefront is an option that has the potential to relieve the supplier of the costs and difficulties typically associated with purchasing Internet development tools, developing web applications, hosting a site, and administrating and managing a site. Investing in a Golf Super-Store storefront can lessen the investment necessary to draw awareness to your site.

The business decision to purchase a storefront will have to weigh the costs of the annual fee and monthly maintenance fees against factors such as around-the-clock availability, convenience of an Internet-based selling application, global reach, and potentially reduced costs for order-processing, order accuracy, and administrative processes.

Further Analysis: The initial storefront capabilities have been conceived and built based on input from previous industry discussions. Further improvement is expected; input will be obtained directly from those suppliers utilizing the service. Anything is possible, and XS Inc.'s software, design and development team is continuously making changes to improve the offering.

What do I do if I have already invested in a Web site?

It is an individual supplier value decision to stay with their existing site or to utilize a Golf Super-Store storefront. A couple of complementary options:

A supplier can simply use the Golf Super-Market (exchange) - listing products for free - and paying a transaction fee (3% for chemicals only on successful trades); thus avoiding the costs associated with a storefront, or

A Golf Super-Store storefront can be used in conjunction with or as a replacement of an existing Web site. (See the explanation above for greater detail.)

How can manufacturers use storefronts and continue to involve their distributors?

A manufacturer storefront can be used to:

~Promote branded products

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- ~ Provide product literature.
- ~ Direct buyers to their local distributors' storefronts.
- ~ Allow buyers to "BUY NOW" from products listed by agents and distributors in either the net market or the storefront area.

Note: Manufacturer's stocking distributors are not required to buy their own storefront in order to have their product listings to be seen on a manufacturer's storefront.

Within the Super-Market (exchange), what is the anonymity feature and why would anyone want to use it?

Based on XS Inc.'s experience in other markets, our current belief is that the anonymity feature, which allows sellers to list products and prices within the Golf Super-Market (exchange) without identifying themselves, gives suppliers the ability to more comfortably offer cash-and-carry or unbundled prices to buyers. Stated another way, it provides a vehicle to price differentiate products that require full-service versus those that don't.

Note: Buyers who choose to purchase from anonymous sellers would still have the following:

Buyers have a 48-hour inspection period to assure themselves that the goods purchased are precisely as ordered.

Manufacturer warranties are still in place.

All products sold in the Golf Super-Market are standardized goods that will arrive in the manufacturers' original, unopened packages.

That said, it will take ongoing education of buyers to understand that products purchased anonymously are not intended to be supported by local distribution as if purchased at full price.

How is the 3% transaction fee a "value" for me?

The transaction fee is a method of pricing that allows the suppliers utilizing the exchange to pay for that functionality. If the underlying financial settlement and logistics (delivery) services are used, then added incremental operational savings exist as a result of avoiding supplier credit, billing, collection, and logistics processes. Further, ten day cash collections means greater time value of money.

As pointed out, this incremental operational savings for suppliers would be greater for some than others. Each supplier should carefully analyze its own cost of money and the related processes.

Will the Golf Super-Market and Golf Super-Store erode prices and margins in the supply chain to the superintendent?

These two questions address the same issue and that is "what is the economic role and impact of the Internet on suppliers and consumers." Although everyone understands that the association did not invent the Internet, and Internet commerce and exchanges are increasing in all markets, we do understand that by bringing the Golf Super-Market forward now, Internet commerce is being introduced and may

likely be adopted more rapidly into this market.

The Internet in general, and Internet commerce specifically, has resulted in more information in the hands of the consumer. With greater understanding of price/services information, availability, and features, consumers are able to make better-informed choices prior to purchase. Although suppliers benefit from increased exposure to existing and prospective buyers, buyers have greater control of their purchases by virtue of the additional information. This negotiation will likely center around those needing full service or some established level of service, and those needing less or no service.

Although the business landscape has changed, the business relationship essentials still hold (META Group):

All business relationships are economic. In the absence of a compelling value proposition, price determines value.

Commitment is the key to building and sustaining relationships.

Individuals buy, but companies pay.

Relationships taken for granted have no value.

Performance is the key to realizing value.

All businesses today, including the association, are searching for better ways to employ the opportunities and the challenges provided by the Internet in service to their customers.

Should I Sell on the Internet?

Additional questions are "Should your company use the capabilities of the Golf Super-Market or the Golf Super-Store?" or "Should we sit and wait for this all to shake out (maybe go away)?" Once again, this based on your business strategy. In developing the business case or rationale for making this decision, consider the following benefits:

Increased Revenue

Attract New Customers - ability to reach new customers through global exposure, 24-7 availability, and overall shopping convenience.

Service Existing Customers - as compared to phone, fax, and mail, the Internet provides around the clock availability and exposure to the end customer, including the ability to advertise or suggest additional products.

Reduction in the Time to Introduce Customers to New Products - the Internet significantly decreases the time it typically takes to introduce a product and inform customers of its benefits; the cycle time of traditional catalog-based product sales, with sales training, special promotions, etc., far exceeds the time it takes to introduce and communicate new content on the Internet.

Reduced Costs

Decreased Costs for Fulfillment - traditional manual ice.

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administrative processes, such as order entry, accuracy checking, financial settlement (credit, billing and collections), warranty administration, back-order administration, and logistics (delivery) setup, to name a few, are relatively expensive (do you know your true costs?); the Internet (and platforms such as the Golf Super-Market and Golf Super-Store) may offer opportunities to significantly reduce the cost of performing these processes.

Decreased Costs for Content, and Marketing Materials - the current cost of development, printing, distributing, and maintenance of product information, technical bulletins, and marketing materials is a considerable business expense. These costs can be reduced through Internet-based capabilities for publishing and disseminating these materials to your distribution and superintendent buyers.

Decreased Costs for Customer Service - technology platforms such as the Golf Super-Market and Golf Super-Store provide the potential to off load some of the cost associated with customer service, and then to re-deploy those strategic resources.

If the Superintendent buys from the Golf Super-Market (exchange), who provides service and how is service provided?

For the pilot group of products, chemicals, the original manufacturer would ultimately stand by its products. That said, the Golf Super-Market (exchange) is not likely appropriate for all products. Suppliers must gauge the complexity of the product they wish to sell on the exchange, and its service requirements. Product complexity such as highly specific user needs, time-sensitivity, geographic concerns, and the necessary flow of goods and services to the buyer should be considered.

Some products of high complexity rely on close-in, hands-on, pre- and post- sale support including demonstration, training, education, consultation, and same day service. These may not be good candidates for the Golf Super-Market exchange, and likely lend themselves more to Golf Super-Store as a point of contact for service, as well as product support.

Pricing?

Pricing was proposed and presented at the meeting. Based on that feedback, the pricing was simplified as follows:

For Distributors

Each Distributor storefront:

Represents a single selling party (one user responsible for setting prices, maintaining listings and processing orders)

Has a unique identification number and logon identity

Has one geographic template which specifies where the storefront can be seen

Has listings created and managed by the storefront owner (added, deleted and edited)

Has no fulfillment services provided by XS

Note: After the pilot, distributors will have the option of using XS fulfillment services.

Store users pay an annual subscription fee depending on the size of the site, and a monthly maintenance fee. There are no per-transaction fees or other start-up costs.

For each storefront, listing less than 1,000 items, the fees are as follows:

\$1,950 annual subscription fee

\$35 monthly maintenance fee

For each addition 500 items, the annual fee will increase by \$200.

For Manufacturer or Brand Storefronts

The purpose of manufacturer storefronts is to provide manufacturers with the capability to promote their company and brands while at the same time providing seamless, click-through-to-buy functionality.

Manufacturers will have the ability to create an eDistribution network; that is, use the Internet to direct buyers to their participating full service distributors where they can purchase products under their usual price and payment terms. They have the added benefit of being able to place orders and get order confirmations 24x7.

Buyers will have the ability to quickly find their favorite brands, see current product literature, labels and MSDS' and to buy in one continuous process.

Once a storefront is enabled, it can also work to provide click-through-to-buy functionality to their banner ads on GCSAA.org.

Each manufacturer storefront comes with basic functionality and features described below. Additional features and functionality, including integration with current systems, can be added according to the manufacturer's needs and marketing strategies.

From Each Storefront, Manufacturers Can:

Display a catalogue of products for sale, complete with logos and product descriptions.

Show their branded product listings from an unlimited number of participating distributor locations or sell direct from their own warehouses. ü Set-up their participating distributors by defining:

Participating Distributor contact information

Products to be listed according to existing distribution or agency agreements

Service area to be covered by each distributor according to terms in their existing distribution or agency agreements (buyers will only see distributors in their service area)

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Allow distributors complete control over pricing and terms offered to superintendents according to the terms of their existing distribution or agency agreements.

Allow superintendents to buy from any participating distributor in their area.

Capture real-time reports from all storefront activity.

Store users will pay an annual subscription fee, and a monthly maintenance fee. There are no per-transaction fees or start costs.

Base Level Capabilities Include:

Up to 100 catalogue items (product and pack size) for each manufacturer store front

An unlimited number of distributor locations from which the catalogue items can be viewed and sold

Product search capabilities for finding specific products are limited to search by brand name only.

For base level storefronts:

\$20,000 annual subscription fee

\$300 monthly maintenance fee

As part of this service offering, XS Inc will provide 40 hrs of free consulting services to assess the operational fit, potential business model extensions, and propose future integration approaches.

Note: Additional fees for enhanced features and optional functionality will be negotiated separately. Consulting fees beyond the 40 hrs will be billed at \$150/hour.

Net Market - Transaction Fees for all Sellers

Listing fees -- None

Transaction fees

3% of the transaction value

Charged on successful trades only

For storefront pricing, what distinguishes a manufacturer from a distributor?

A manufacturer is defined as any company who derives 95% or more of their sales revenue from the sale of its own branded products.

What About Sales Taxes?

For the pilot, functionality will be added that will enable each supplier to establish its own sales tax zones.

What About Performance, Capacity, and Reliability?

Technical due diligence performed by META Group indicated that Digex (the hosting service provider for XS Inc.) is a premier provider of performance and reliable hosting services. Recent statistics on volume capacity, scalability, and response to peak demands indicates that XS Inc. has the capacity to meet the demands of the Golf Super-Market.

Further Analysis: Throughout the pilot and continued build-out, scalability, performance, and capacity will be continuously assessed.

What are the Objectives of the Pilot?

The objectives of the pilot are to "soft launch" a real solution in the marketplace to:

Experience first hand the functionality of Internet commerce;

Determine the most compelling "value" drivers for both buyers and suppliers;

Guide the development of future offerings to the broader membership (launch, learn, re-launch); and

Decide if the GCSAA, as a trusted third party, can be of value in bringing the benefits of the Internet to buyer and seller members.

Next Steps

A number of activities will occur prior to the launch, as well as in the initial stages of the pilot. Many are in response to the April 17th meeting.

Communication

Communicate the results of the April 17th meeting to the suppliers not in attendance. Continue our analysis toward clarification and resolution of the identified issues.

Pricing

Assess and solidify pricing.

Pilot Development and Testing

Identify revisions to initial pilot.

Assess the feasibility of implementing these revisions for the pilot or for subsequent releases.

Clarify storefront capabilities and communicate these capabilities to potential users of this capability.

Continue pilot planning and development.

Develop a performance model to assess the pilot.

Perform testing.

Follow-up.

Host one-on-one follow-up discussions for clarification. Schedule a second industry commerce meeting.

Enrollment

Enroll suppliers.

Continue enrollment of buyers.

Pilot Launch

Launch the pilot by mid to late May 2001, continuing to enroll throughout the pilot. As a result of modifications discussed during the April 17 meeting, the pilot launch date was pushed back from the original May 1 date.