ROAD MAP OF THE NEW UNIVERSE

200 Companies Rated

Forbes.com

www.forbesbest.com

JULY 17, 2000

Best of the Web

B2B

An Economy on Steroids

The Birth of METACAPITALISM

Can FORD Become Another Cisco?

INVESTING: Buys Among Battered Stocks

HEALTHEON: First Mover Disadvantage

SMALL BUSINESS Muscles Up

DISPLAY UNTIL AUGUST 25

03>

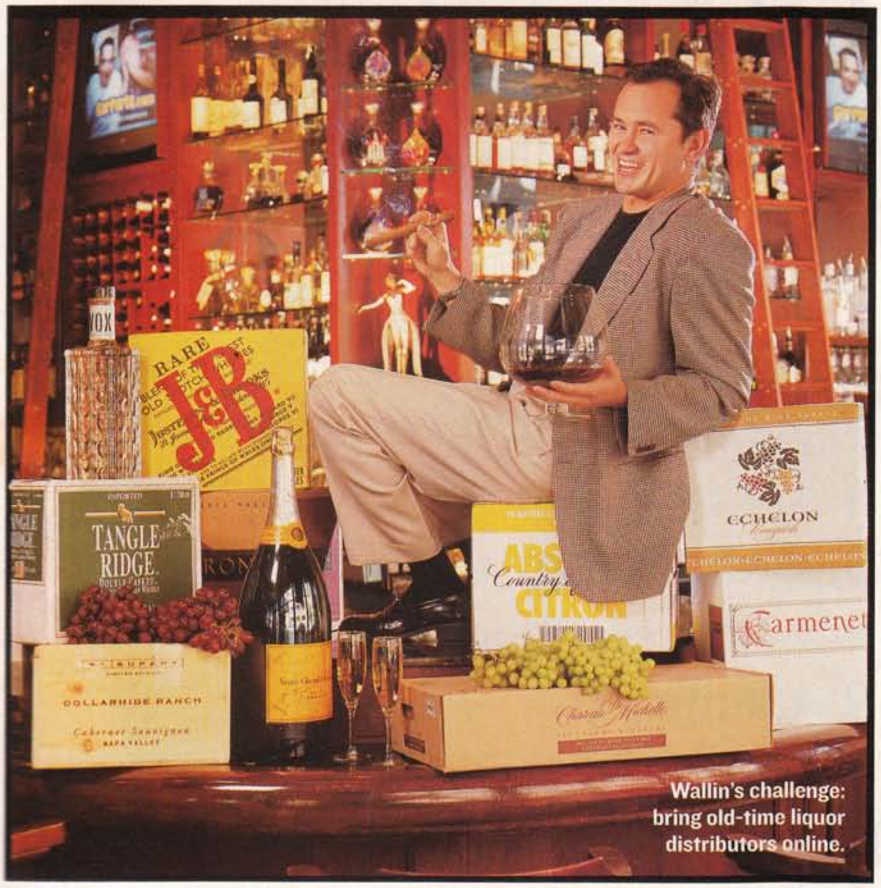
0 75470 08320 4

$4.95/ CANADA $5.95

Smoke Alarm

Many B2B exchanges are designed to cut out the middlemen. Eskye is out to protect them.

BY PHYLLIS BERMAN



Wallin's challenge: bring old-time liquor distributors online.

IT'S JANUARY OF THE NEW MILLENnium at the Ritz-Carlton Hotel in St. Thomas, an almost perfect setting for the annual meeting of the executive committee of the Wine and Spirits Wholesalers of America. The group basking in the sun are the representatives of the 200 families that control the distribution of $110 billion worth of liquor throughout the country. Foremost among them, is Rocky (William) Wirtz, one of the largest distributors of booze in the U.S. with operations in five states. Wirtz is better known to the public as the owner of the Chicago Blackhawks hockey team.

The issue before the group: Whether these families—happy and very fat—should sign onto a plan that would hook all retailers, distributors and suppliers of liquor onto a single online ordering system. The man presenting the plan is J. Smoke Wallin, 34, one of their own, at least by marriage. He had joined his father-in-law's Indiana distributorship called National Wine and Spirits (NWS), soon after he graduated from Cornell more than a decade ago. At the time NWS had less than $100 million in sales. Today its sales exceed $1 billion.

But now, having formed Eskye.com, he was coming at them as a dot-commer ready to alter the cozy formula they have perfected since Prohibition.

Liquor distributors are a very tight and secretive group. Few are publicly traded and even fewer use the Web for anything more than e-mail. "Nothing has changed in this business in 60 years," says Wallin. "The last time an outsider found a way into the business was 1973. Since then, when any distributorship is sold, it goes to one of the established families." In fact, Wallin initially had trouble convincing his own father-in-law to sign on to Eskye.

The liquor establishment has good reason for distrusting newcomers. These family distributorships are protected in large part by the 21st Amendment of the Constitution, which was voted into existence when Prohibition was repealed in 1933. The law effectively prohibits the makers of spirits from selling directly to the retailers of booze, be it a restaurant or corner liquor store. The heavily regulated, multitiered system was designed to keep out organized crime and collect taxes.

Those lucky families still in the business, as a result, enjoy operating margins estimated to be from 22% to 25% and cash-flow margins as high as 9%. Middlemen in the booze trade are protected from disintermediation—a key principle of the new economy.

So Wallin devised a marketplace that would maintain the status quo and essentially cut down on paperwork, faxes, telephone calls and sales visits, made between the thousands of distributor reps and liquor retailers. Indeed, such administrative tasks take as much as 65% of a distributor's time.

Wallin's Eskye puts all the detailed information in one central place. The key is his procurement software, which among other things accommodates the myriad state regulations in this highly regulated industry without breaching privacy. Rather than replace them, the system allows distributors within each state to continue to compete for customers as they always have, just more efficiently.

The Web-based software is free to all restaurants and other retailers. Eskye makes money by charging a small transaction fee on trades, and plans to earn more from suppliers who are willing to pay a subscription fee for network access to retailers and detailed information on sales.

Ironically, it wasn't the promise of efficiencies and seamless customer relations that ultimately won over some of

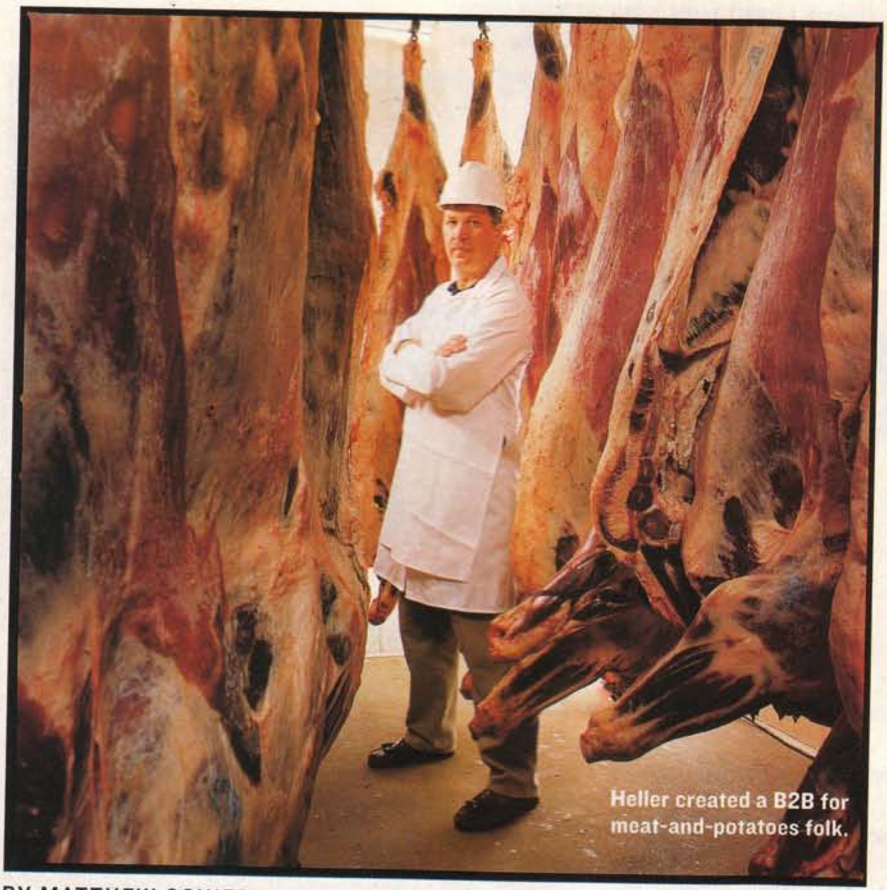
BLACK / TOBY

Wallin's crustiest former colleagues. It was his clear warning to them that if they didn't back his exchange, an outsider would step in—possibly with the support of suppliers like Seagram.

Since that January meeting, Eskye has signed up more than 50 of the 200 biggest distributor families, including Wirtz and six other of the top ten—a group with $7.5 billion in sales. More than 550 restaurants and liquor stores can now make purchases through Eskye. But those numbers are puny considering that there are 550,000 retailers in the U.S. Eskye has a long way to go. F

Slaughterhouse Blues

How do you bring a bunch of meat and poultry packers into the New Economy? Very slowly.



Heller created a B2B for meat-and-potatoes folk.

BLACK / TOBY

BY MATTHEW SCHIFRIN

IN TERMS OF DIGITAL MILES, YOU can't get much farther away from Silicon Valley than Madison, Wis. There are more dairy cows in the state than DSL connections. So it is no wonder that when, in 1996, Rod Heller, the 42-year-old founder of FoodUSA.com, went knocking on the doors of big food companies like Sysco to sell his idea for a food exchange, the doors slammed shut as fast as they had opened. "'Too geeky' was what they said," says Heller.

Before FoodUSA, Heller was making $50,000 a year as a food broker. He peddled whatever he could—truckloads of canned mushrooms, cases of tomato sauce—to local groceries. Then Heller read about Jim Manzi, the former chief executive of Lotus who planned to make Industry.Net into a giant network of buyers and sellers of industrial parts. Manzi's venture crashed because he spent lavishly and tried to cover too much. The saga gave Heller an idea.

"Once the client demo is over, all that most food brokers do is take orders. They weren't adding value but were getting 3%–5%. I figured I could do it over the Internet and get to a heck of a lot more buyers," says Heller.

So Heller wrote a business plan. But unlike Manzi, he kept it simple. He wanted to establish a neutral market for meat. The packers and slaughterhouses would post their meat and finance the transactions; buyers would pay for delivery. FoodUSA would collect 0.5% from the sellers, whose identities remained anonymous until the deal closed.

Heller shrewdly limited the scope of his plan. "Most B2B guys want to build huge, automated, end-to-end systems," he says. But that's too much technology for a lot of meat people. "If you tell people in this industry to put the mouse at the top of their screen, some will lift it up and perch it on top of their monitors. No one is going to spend $300,000 to tie a system into their back end."

In fact, Heller's operation is so simple it hardly operates as a Web exchange at all. Half of FoodUSA's 46 employees are either salesmen, who call processors for postings, or "trade facilitators" who use the phone to push deals to close.

"We find that people in this business prefer to use our toll-free telephone number," says Heller. "Most of these guys are middle-aged men who have kids in college. His job is dependent on how well he buys meat. There is no way he is going to buy $100,000 worth of meat without talking to someone."

Since launching in April, FoodUSA has traded about $10 million worth of meat. It's a good start, but it doesn't come close to covering even payroll.

Heller is a regular speaker at B2B conferences. Let's hope he drums up some cash. FoodUSA will need more than its $3.3 million initial funding to survive. A number of big companies are opening up their own exchanges.

Says Heller, "What we've built here is a traditional business with an Internet overlay. We are just trying to get them off of the fax and telephone." F