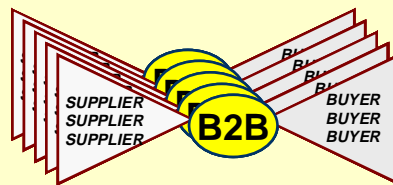

Appendix XI: B2B Internet Presentation

Business to Business E-Commerce

Collaborative Commerce



Great B2B = EPS...

“Companies can spend more than 50% of their revenues purchasing goods and services. A reduction in total purchase costs has a direct, positive impact on increased profitability. Becoming an e-Business allows companies to communicate in real time across the supply chain for better utilization of resources. **The goal is to end the era of disconnected suppliers with big buffers of inventory.”**

Ray Lane, Oracle President & COO

“The inefficiencies with the supply chain are only the tip of the iceberg...Having a presence in all areas of e-commerce...helps Ford increase the velocity of inventory, revenue, and time to delivery and speed to market. Eventually, the relationships that Ford is creating with Carpoint and other Internet channels or sites will make Ford a smarter manufacturer, marketer, and customer friendly company.”

Jacques Nasser, Ford Motor President and CEO

Looking Outside Internal to External Focus

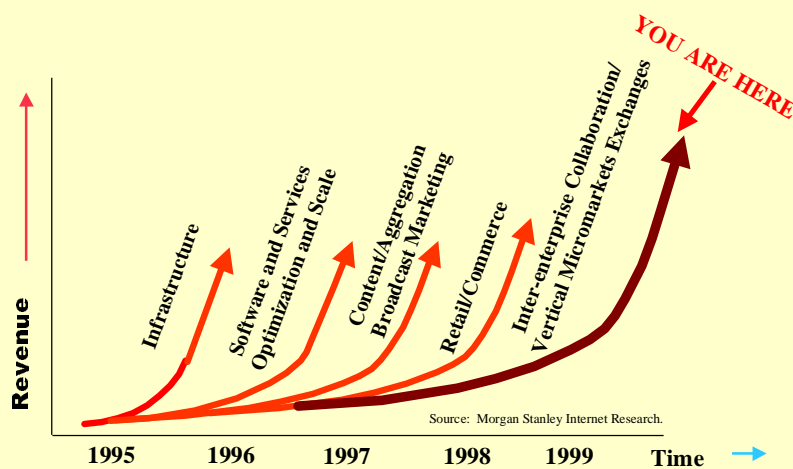
1994

2000

Internal to the Enterprise		External Interprise
Back Office	Front Office	
<ul style="list-style-type: none"> ▶ Limited, known users ▶ Intra enterprise process ▶ Client/Server, EDI ▶ Power users ▶ Backoffice efficiency ▶ Cost savings ▶ Integration/one stop shopping 	<ul style="list-style-type: none"> ▶ Intra enterprise process ▶ Limited, known users ▶ Client/Server; limited Web ▶ Customer facing employees ▶ Customer management ▶ Customer service ▶ Integration/ centralized view 	<ul style="list-style-type: none"> ▶ Inter-enterprise collaborations ▶ Unlimited, unknown users ▶ Internet standards, XML ▶ Virtual supply chains ▶ External integration ▶ Market share, growth ▶ Specialization

3

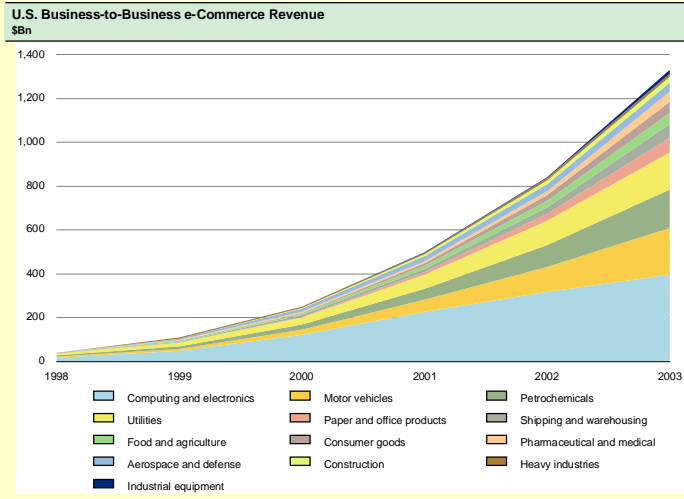
Development of Internet Market Segments



4

Overview of Opportunity

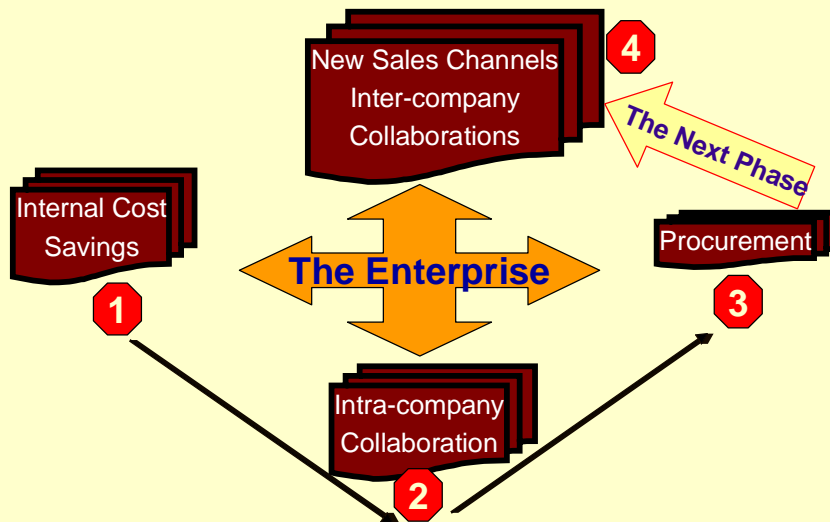
B2B e-Commerce by Sector



Source: Forrester Research

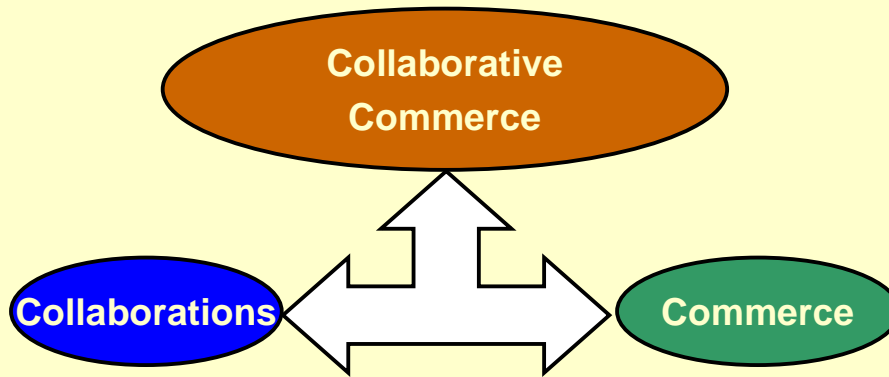
5

Internet Impact on the Enterprise –The Phases



6

Different Paths, Same Destination



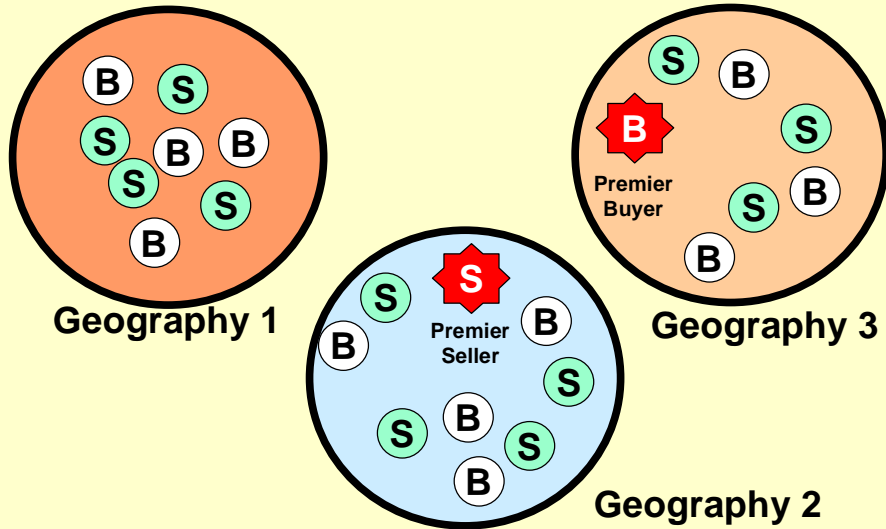
7

Three Key Problems

- **Commerce is fragmented by geography which implies inefficient markets**
 - Higher purchase costs to buyer because of inefficient markets
 - Higher cost to supplier to discover new customers
- **Interactions between businesses are complex, labor intensive, and not scalable**
- **Supply chains are bloated with excess inventory and would like to substitute information for inventory**

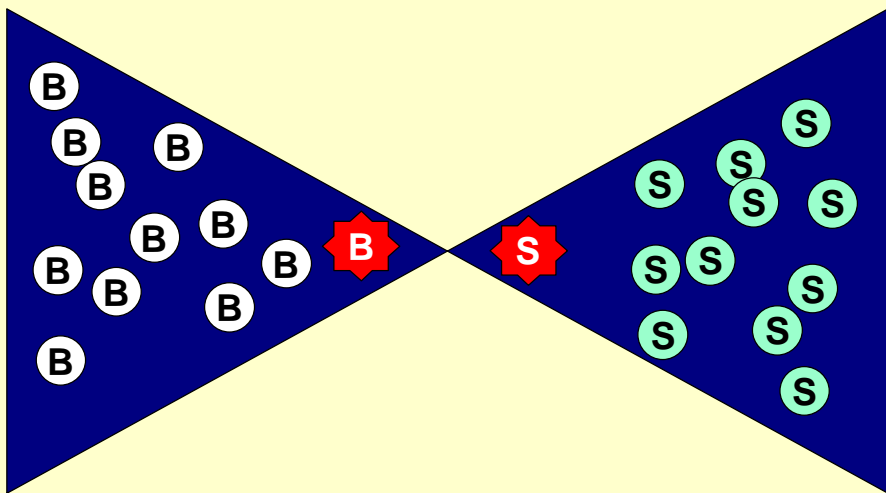
8

Spatial Fragmentation of Markets



9

Networks Deliver Transparency



10

The Buyer Gets Transparency

- **Price Transparency**
 - Does price vary significantly by geographic region or among size of customer?
 - Am I getting the market price or the price I've come to expect?
- **Availability Transparency**
 - I need product now, who has it?
- **Supplier Transparency**
 - Who else out there makes this product?
- **Product Transparency**
 - Is there a substitute, alternative product?

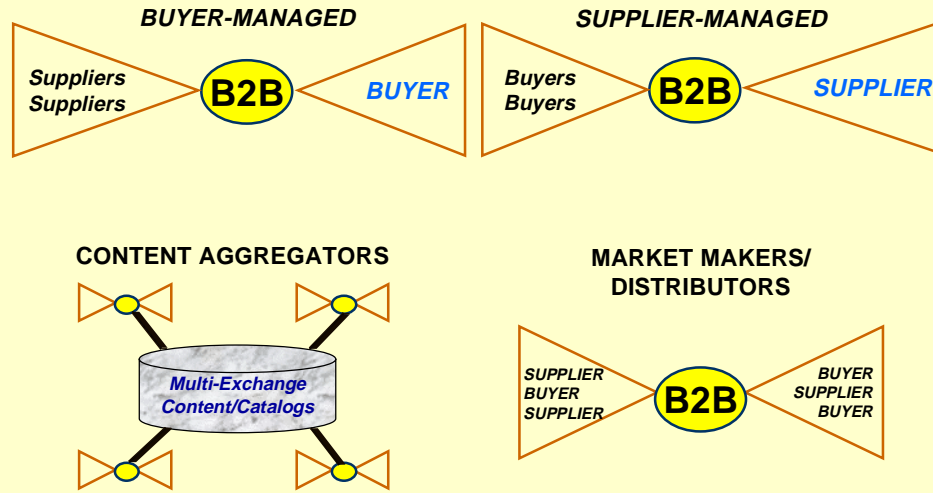
11

Basic Exchange Functions

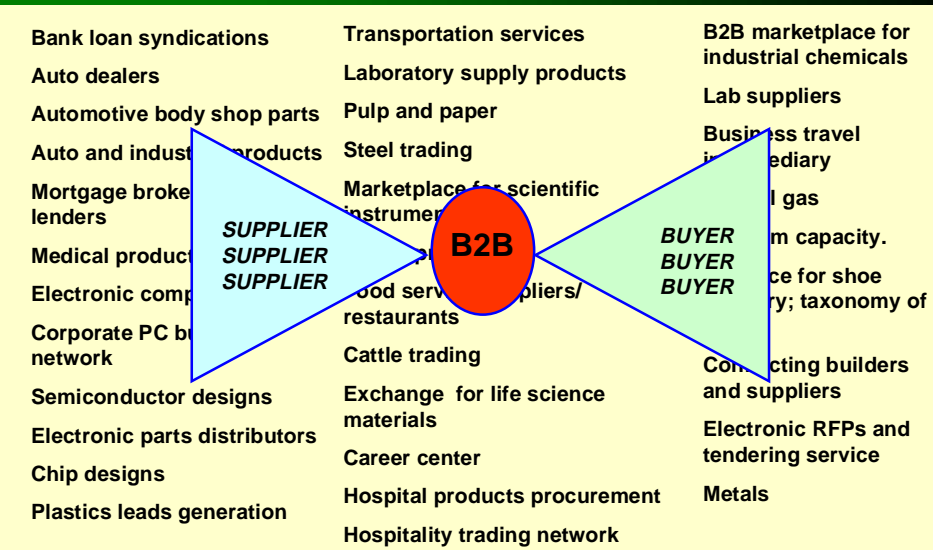
- Buyer discovery
- Supplier discovery
- Price discovery
- Product/service availability discovery
- Transaction execution
- Transaction integrity
- Credit risk management/assessment
- Catalog management

12

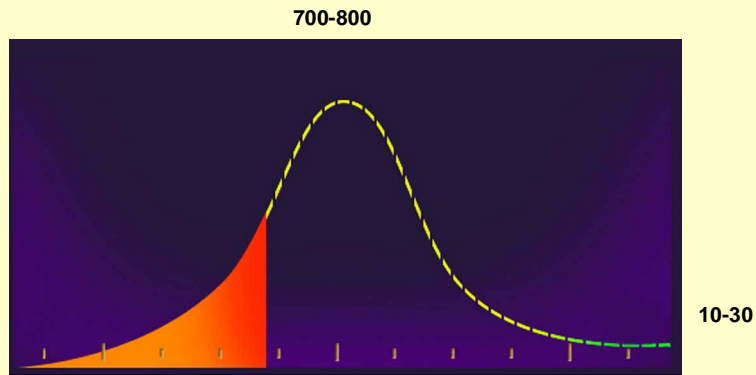
B2B e-Commerce Business Models



The Vortex Brings Open Market Economics to Every Industry



Growth of Vertical Marketplaces



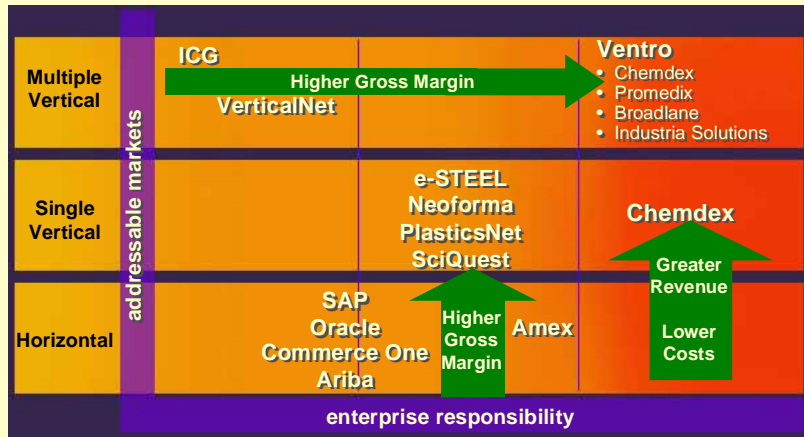
Source: Ventro

Representative B2B Landscape

addressable markets	Multiple Vertical	ICG VerticalNet	Ventro • Chemdex • Promedix • Broadlane • Industria Solutions
	Single Vertical		e-STEEL Neoforma PlasticsNet SciQuest Chemdex
	Horizontal	SAP Oracle Commerce One Ariba	Amex
enterprise responsibility			

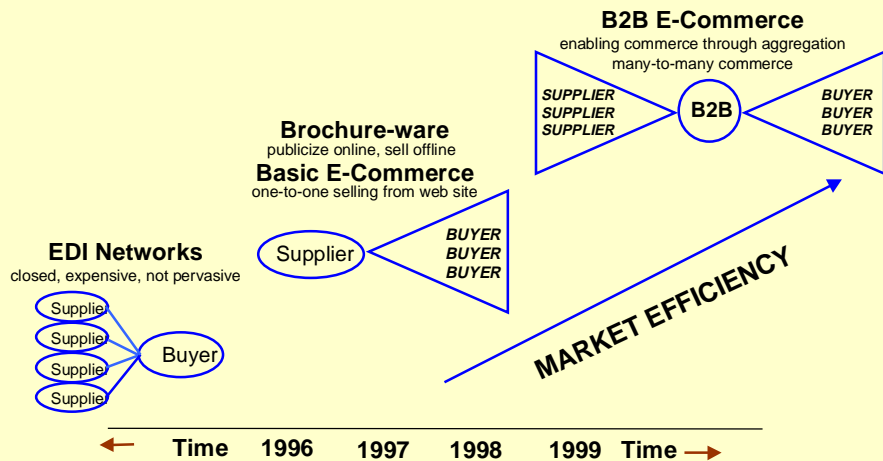
Source: Ventro

Representative B2B Landscape



Source: Ventro

A Quick History of B2B



Source: Morgan Stanley Internet Research.

B2B Exchange Market Functions

- **Capacity Brokers** – rid the industry of excess capacity; solves a problem and helps pricing; anonymous trading
- **Gray Market Facilitators** – for used and resold equipment away from the original manufacturer
- **Collaboration Platforms** – long time trading partners use the Internet for improved efficiency; pre-negotiated terms; many business processes beyond buying and selling
- **Spot buying** – emergency supplies and ad hoc needs for research
- **Distributor Networks** – distributors can load balance inventory with each other; car dealer model
- **Proposal Publishing** – Request for Proposals to initiate complex transactions in time; start of process but post contract project management continues for months
- **Private Exchanges** – closed communities; supply chains dominated by one anchor tenant; private sourcing networks
- **Industry Community Boards** – industry meeting place; trade journal replacement; discussion forums; Web conferences

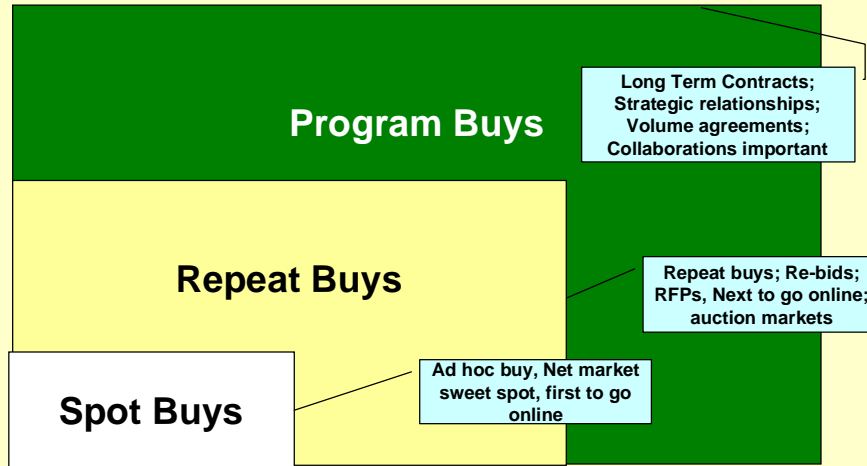
19

Exchange Pricing Models So Far

- **Transaction fees** – usually range from 0.5% of the transaction to 3% on more complex transactions
- **Subscription fees** – flat subscription fees for the full year on anticipated usage
- **Mark up** – some exchanges take the receivables paper for a commission of 2-5% of the sale, which provides the seller with immediate liquidity
- **Advertising fees** – similar to B2C
- **Membership/Storefront fees** – charges to a merchant to list their catalog

20

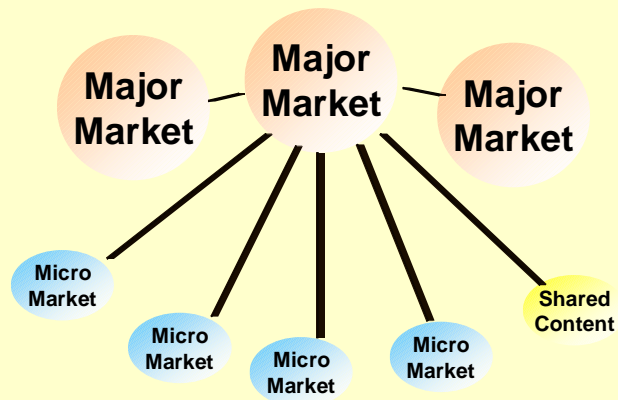
Stratification of Enterprise Procurement



Source: VerticalNet, Morgan Stanley Dean Witter

Federated Net Markets

Buyers Will Force Integration



Open Markets can be Brutal

- **Overcomes spatial limitations**
 - Canada and Mexico still 47% of U.S. top export/import volume
- **Explosion in Micromarkets** – forced to focus on comparative advantage
- **Incredible market discipline** – digital audit trail; everything can be measured
- **Behavior changes** when markets becomes transparent

23

How Big are We Talking Some Numbers

- \$20 trillion in revenue for all companies with greater than \$500 million in revenue
- External spending of this audience is \$10 trillion
- 65% is for direct procurement (going into end product for resale; 35% indirect (admin support and MRO)
- 8% procurement overhead in processing cost or \$800 billion

24

Overview of e-Commerce Potential Savings

Company	Stock Price (US\$) 3/28/2000	LTM COGS (US\$MM)	Addition to EPS With Savings Of: ⁽¹⁾		2000 P/E	Stock Upside	
			5%	10%		5%	10%
Top 30 S&P 500 Companies⁽²⁾							
General Motors	82.25	136,946	6.95	13.90	9.0 x	75.9 %	151.8
Ford Motor	51.75	122,923	3.51	7.03	8.8	59.8	119.5
Exxon Mobil	76.31	121,635	1.14	2.28	22.8	34.1	68.2
Wal-Mart Stores	54.50	119,283	0.87	1.74	37.8	60.4	120.9
General Electric	156.00	83,937	0.83	1.66	42.3	22.6	45.1
Boeing	38.00	52,015	1.81	3.62	15.8	75.1	150.1
BM	122.50	49,403	0.89	1.78	28.4	20.6	41.2
Citigroup	61.00	39,723	0.38	0.77	19.0	11.9	23.9
Royal Dutch Shell	55.44	38,382	0.58	1.16	21.2	22.3	44.6
Enron	72.81	34,463	1.57	3.13	52.0	111.8	223.6
McKesson HBOC	21.50	31,598	3.64	7.29	20.1	340.6	681.3
JC Penney	14.69	30,303	3.78	7.56	8.6	221.1	442.3
Compaq Computer	28.44	28,213	0.54	1.08	26.3	49.9	99.9
Texaco	51.06	28,160	1.65	3.31	15.2	49.4	98.8
AT&T	59.94	27,948	0.28	0.57	26.3	12.7	25.4
Hewlett-Packard	140.81	27,851	0.90	1.81	41.3	26.5	53.0
Philip Morris	19.56	27,831	0.38	0.76	5.3	10.4	20.8
American International Group	104.25	28,158	0.59	1.18	28.6	16.2	32.4
Sears Roebuck	29.88	27,161	2.34	4.67	7.1	55.2	110.4
Kmart	9.75	26,949	1.77	3.55	8.2	149.1	298.2
Delphi Automotive	15.69	25,035	1.45	2.90	7.6	70.3	140.6
Home Depot	64.00	25,399	0.36	0.72	64.6	36.2	72.4
Costco Wholesale	51.13	24,770	1.81	3.62	37.3	132.2	264.3
Target	68.88	24,615	1.83	3.65	27.4	72.7	145.5
Cardinal Health	47.06	23,071	2.67	5.33	19.5	104.9	209.9
Lockheed Martin	18.75	23,022	1.89	3.78	18.8	189.0	377.9
Albertson's	27.94	22,264	1.71	3.42	12.6	76.9	153.9
Allstate	22.63	21,737	0.88	1.75	8.2	31.8	63.6
Kroger	17.25	21,393	0.83	1.67	15.3	73.7	147.5
Chevron	64.88	21,393	1.06	2.12	16.5	23.1	46.3

Source: FactSet Research

Note: (1) Assume 35% tax rate
(2) Companies ranked in order of COGS

25

BAMs vs DOT COMs

BRICK AND MORTAR

- Brand
- Customer relationships
- Alliances
- Content
- Domain expertise
- Fulfillment

DOT COM

- Focus
- Speed
- Agility
- Compensation structure
- Public currency
- Easy access to capital
- No requirement for profitability

26

Unbridled Price Competition Will the World Implode?

- Evidence suggests **price uniformity** instead of apocalyptic collapse
- Elimination of aberrant pricing
- Auction data – half of wins go to the non-low bid
- Suppliers have already been squeezed on price; not much left on the table
- Some sellers, particularly in auctions, have realized **higher** prices because of a wider pool of buyers

27

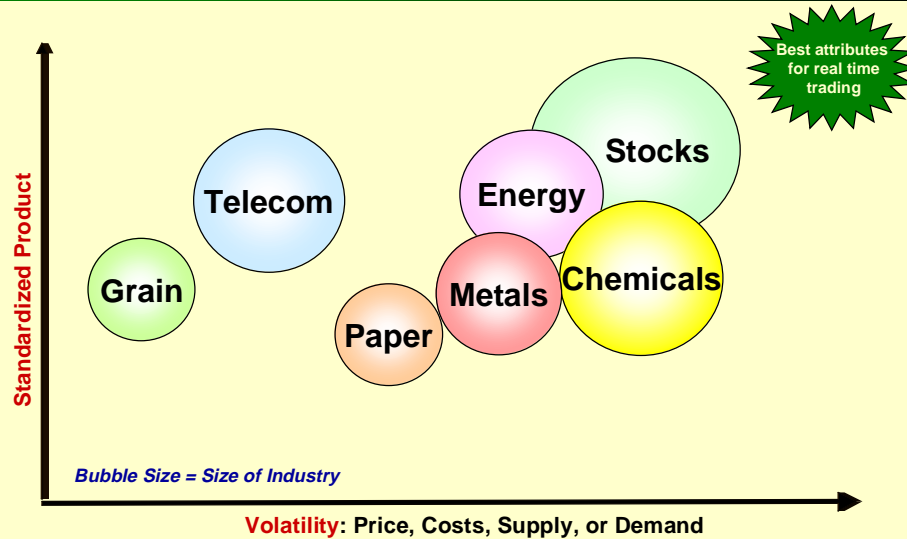
Exchange – What to Look For

- Low concentration of buyers
- High number of geographically dispersed suppliers
- High number of existing intermediaries
- High number of transactions per \$1 million of trading volume
- Low touch, standard products or easily specified products
- High churn rate; high average number of repeat trades (e.g. stocks)
- Industry with few self service options and low customer service levels
- Frequent excess capacity
- Unpredictable demand and hence production needs
- Regional markets that could potentially go global
- Low brand name impact; product availability more important than seller's identity

28

Real time Bid/Ask Trading

Size Matters - Along with Volatility and Standardization



29

The Buyer Gets

- Control over the procurement process; implement business rules more consistently
- Reduce maverick buying; maverick purchases average 25% premium over corporate purchase agreement
- Supplier performance measurement
- End to End view of chain of commerce
- Lower cost of discovery
- More consistent, personalized promotions and pricing

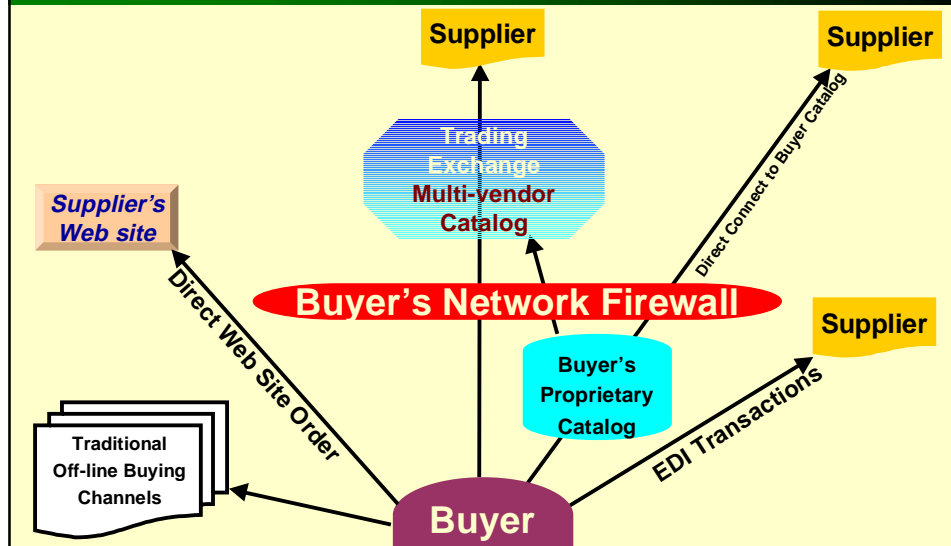
30

Sellers Get a Few Things as Well

- Aggregation of small orders
- Centralized market
- Lower customer acquisition costs
- More accurate orders; lower cost of interaction and change management
- Competitive advantage will be discovered more quickly
- Easier segmentation and profiling of customers because of digital audit trail
- More consistent promotions and cross selling

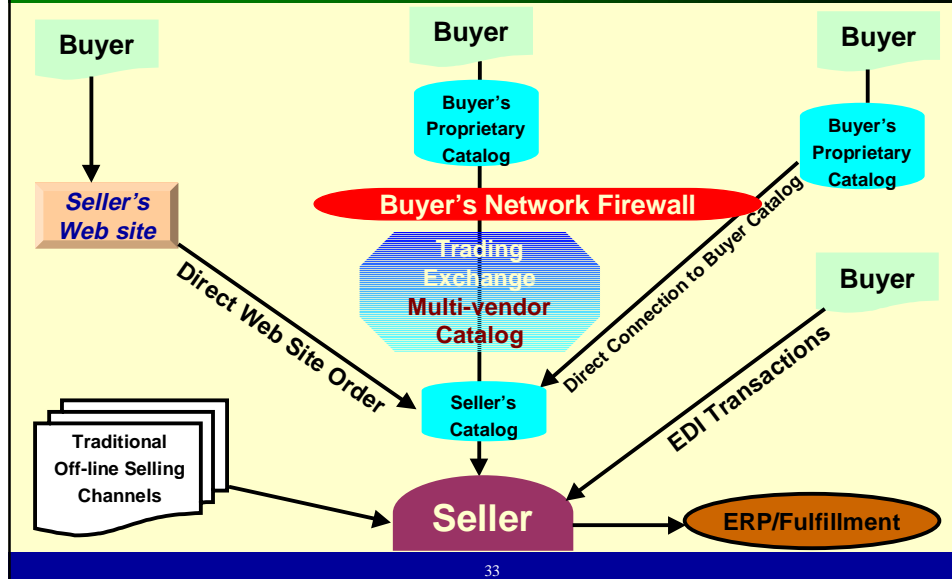
31

The Buyer's View of The Procurement Landscape



32

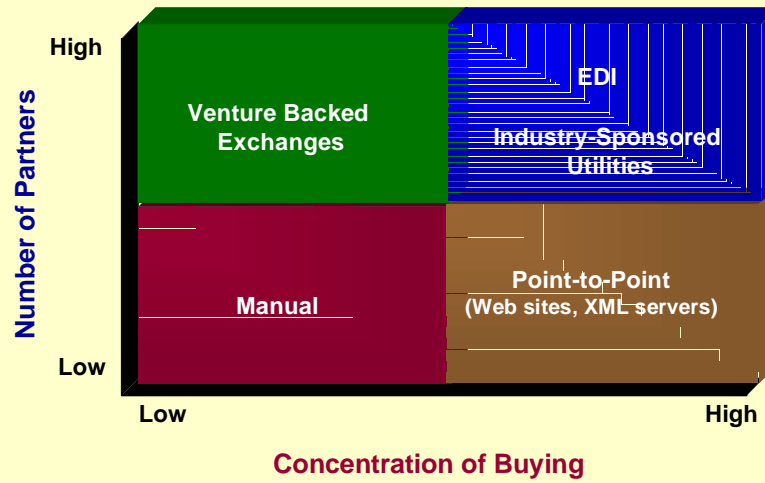
The Seller's View of The Procurement Landscape



Exchanges – The Industry Utility Model

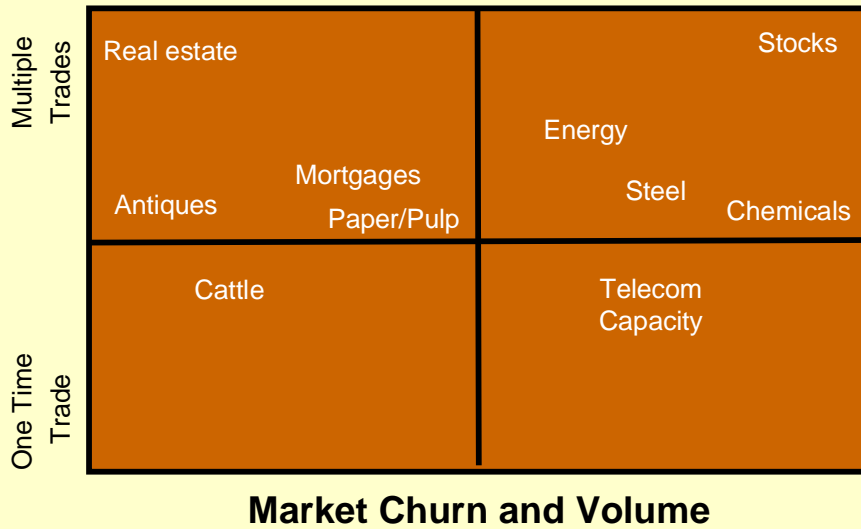
- Faster time to market; aggregate scarce resources; more attention from technology vendors
- Less confusion for buyers and sellers
- Common plumbing/ utility optimized for the industry
- New company structure encourages innovation and new services; attracts right type of management
- Private relationships combined with enhanced discovery
- Intra-industry optimization easier
- Collective public market will explode in innovation; private market won't be able to keep up
- Equity interest and a vote in how the next channel evolves; risk of not being involved

Buying Concentration Matrix



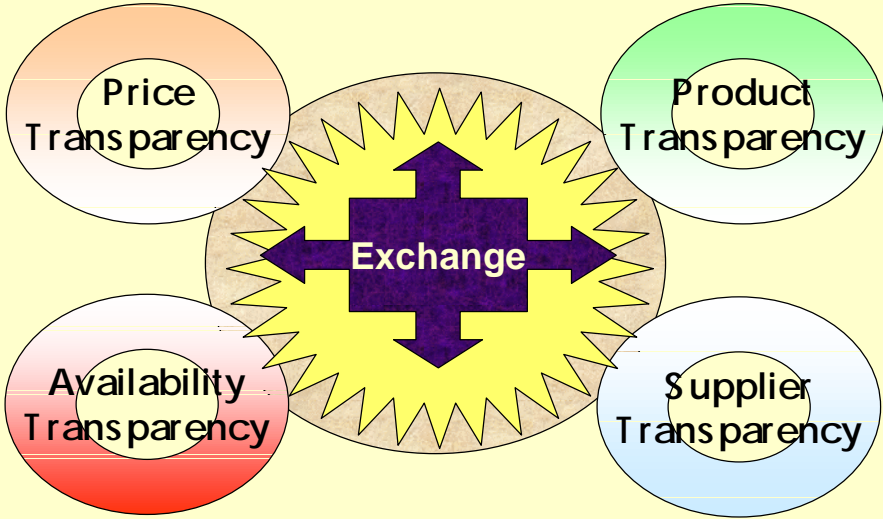
35

Product Suitability Matrix for Selected Trading Exchanges



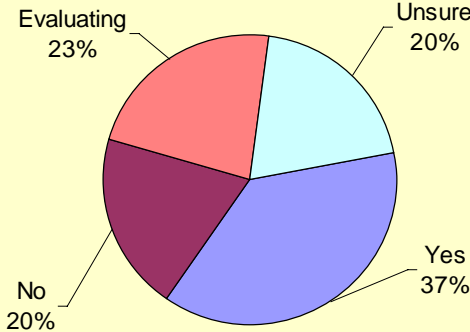
36

Assess and Weight the Transparencies



E-Commerce

Is your company planning to participate in an E-commerce trading exchange, supply chain, or community?



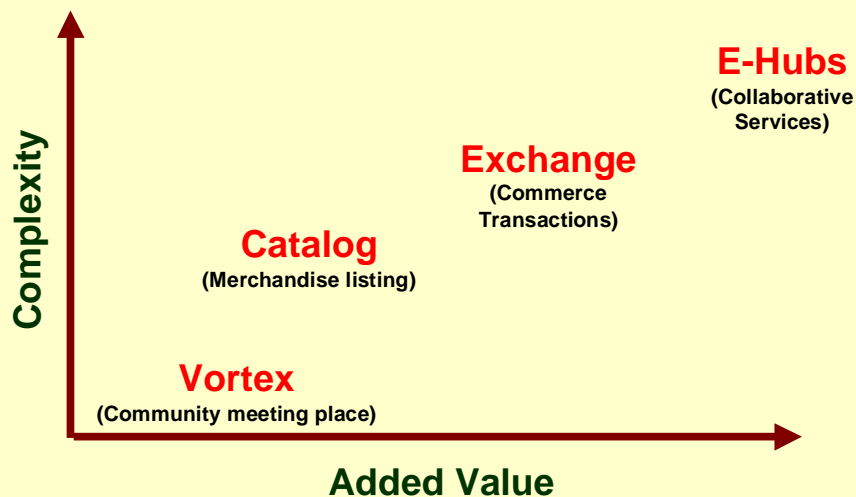
Survey Date: October 1999

Order Matching Won't Cut It

- NYSE volume of \$7.3 trillion in 1998
- 168 billion trades
- Profit of \$110 million
- Companies won't pay a lot to route transactions over a free network to people they already know
- Remember, its down to 6 cents a share
- Look for more value-added services or else
- Add collaborations to commerce

39

Exchanges – The Road to Value



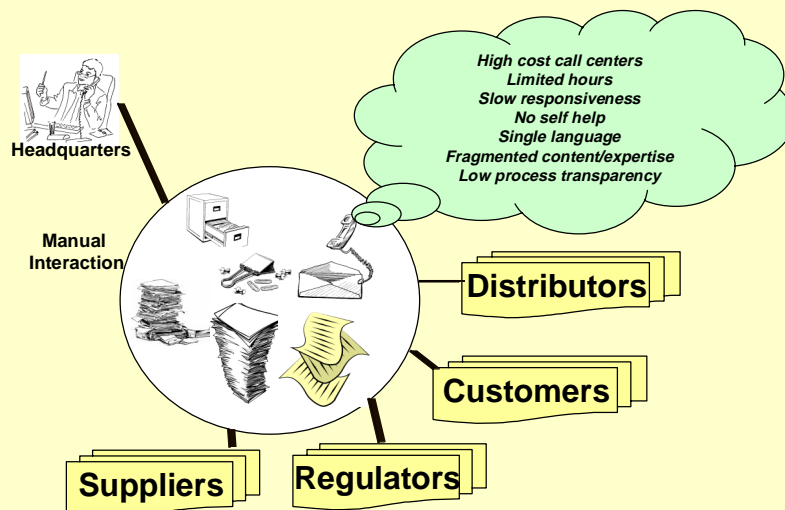
40

Collaborations – B2B Stickiness

- Supplier certification - reputation
- Application hosting
- Sourcing of products
- Contract administration
- Transportation management
- Tariffs and duties assessment
- Product life cycle management
- Regulatory filings
- Planning, scheduling, forecasting
- Warehousing and inspection
- Promotions/campaign management
- Risk mitigation services
- Profiling and personalization
- Catalog display/maintenance
- Authentication/security
- Training and education
- Product configuration
- Private markets, negotiated terms
- Derivative instruments
- Electronic bill presentment
- Post sale support, warranty programs
- Community news, employment, etc
- Receivables management
- Performance mgmt/benchmarking
- Returns processing, repair claims
- Scrap management/reverse logistics
- Payment processing/order mgmt
- Inventory availability
- Order explosion/routing
- Shipping status, SKU resolution
- Partner/team selling and promotions
- Advertising and interactive selling
- Workflow and business rules
- Backorder management
- Escrow and warranties
- Complex pricing
- Liquidity
- Financing

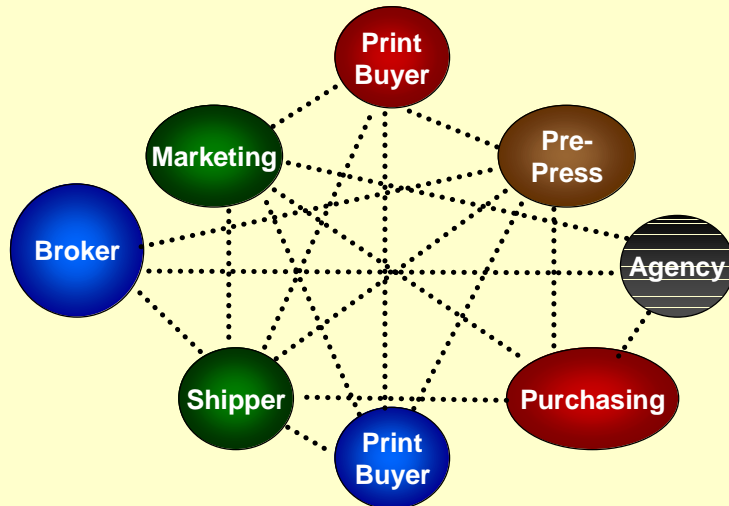
41

The High Cost of B2B Interactions



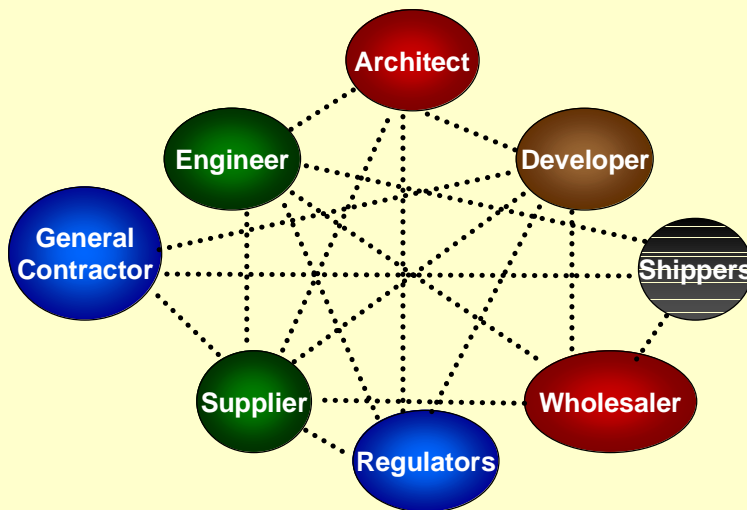
42

Collaborations in the **Printing** Industry



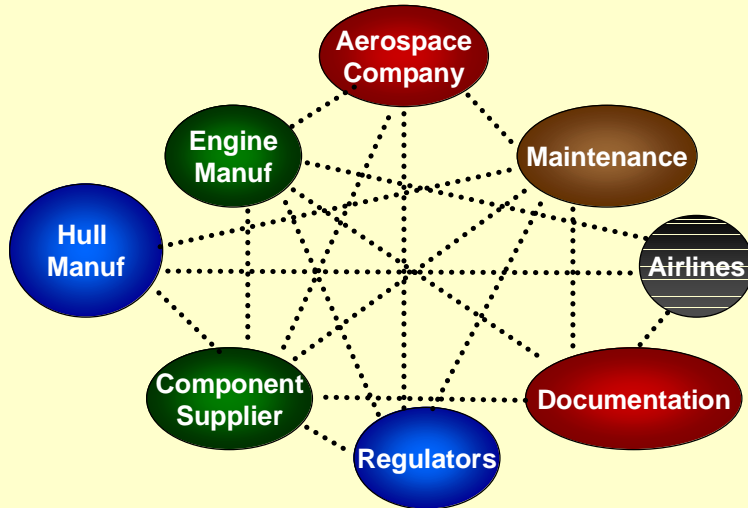
43

Collaborations in the **Construction** Industry



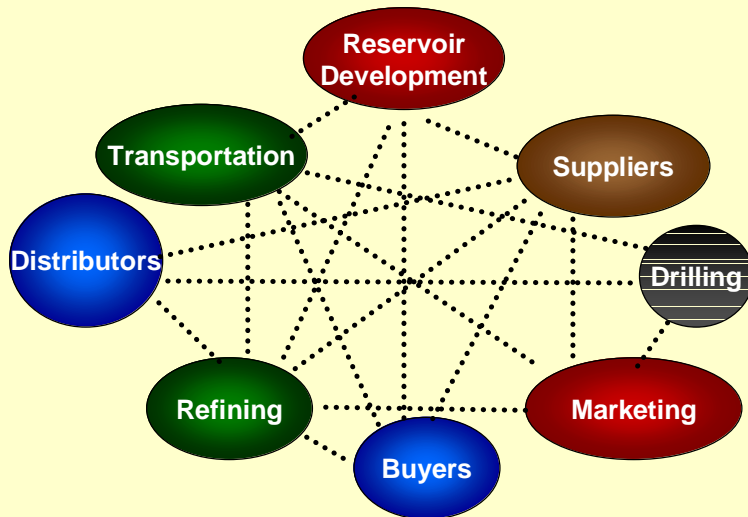
44

Collaborations in the Aerospace Industry



45

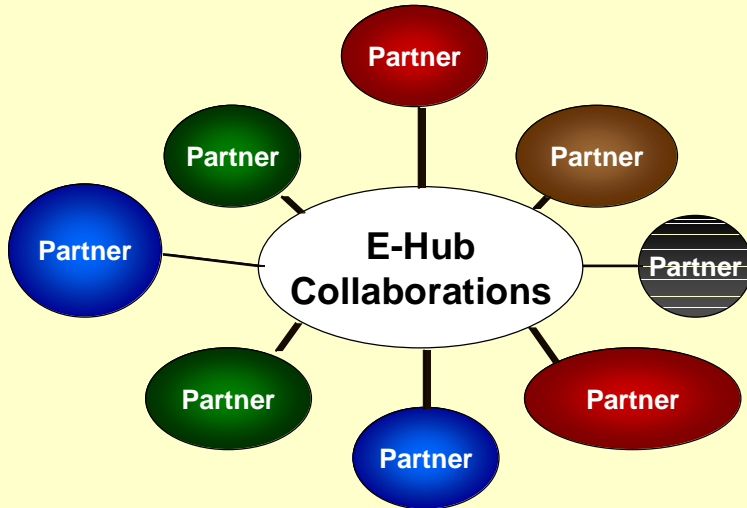
Collaborations in the Energy Industry



46

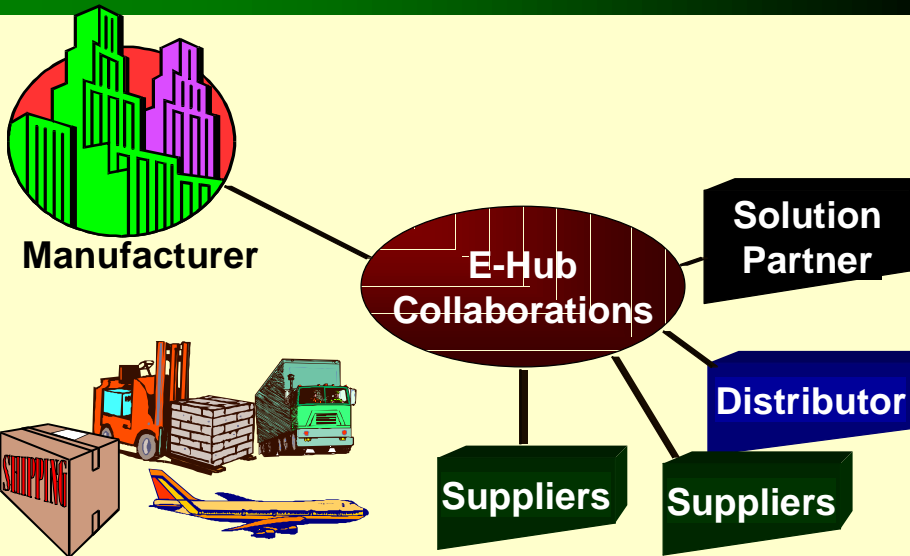
The Common Theme

Point-to-Point Must Go to Hub-Spoke



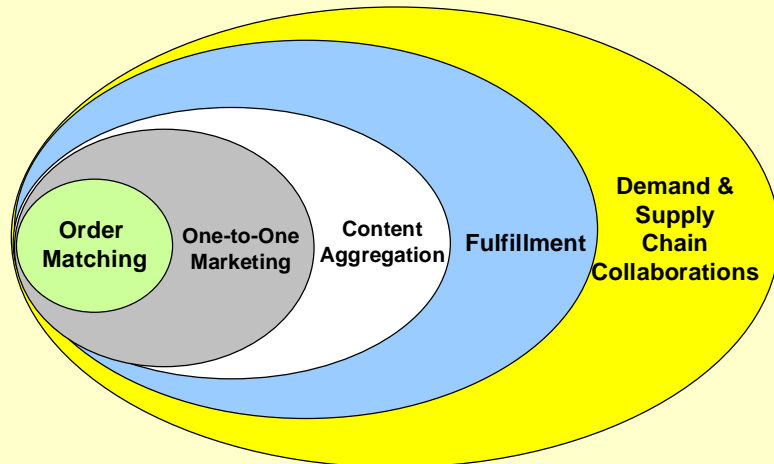
47

Hubs Integrate Multiple Facets of Commerce



48

Layers of Value From Exchange to Hub

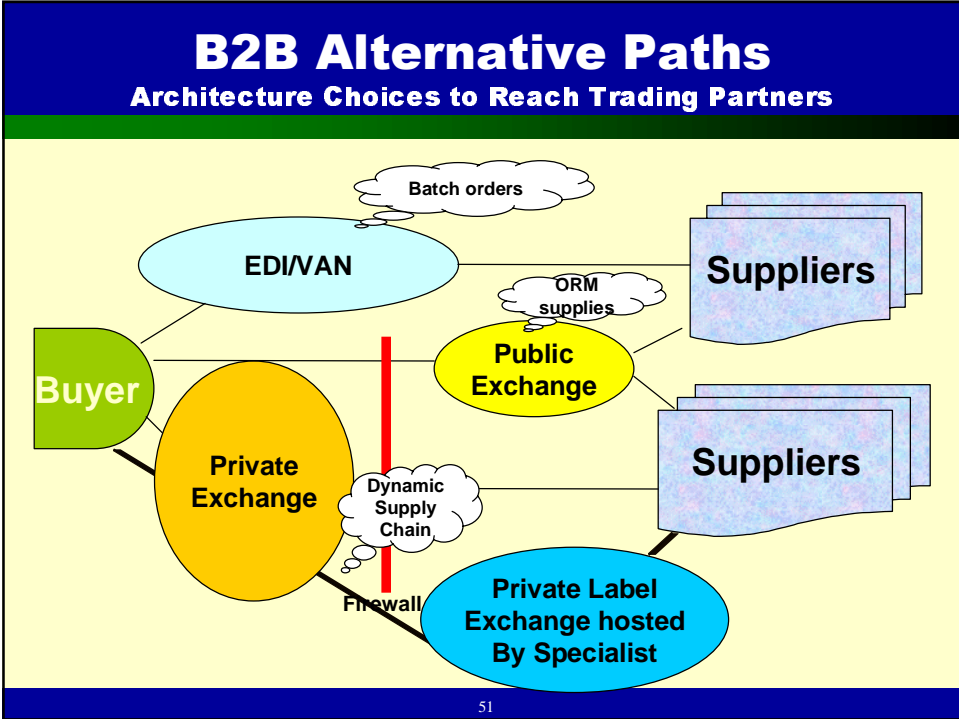


49

The Chain of Commerce in the 21st Century

- **Collaborative**, project-based manufacturing and services
- **Each partner a value-added node** in the chain - contributing content, knowledge, and specialized services
- **Flexible, transparent channel** responsive to market conditions
- Acute need to **share information** and **coordinate** decisions and activities

50



Content Matters

- **Source** – find relevant content
- **Aggregate** – consolidate for insight
- **Transact** – support commerce
- **Collaborate** – between design, procurement, and manufacturing
- **Analyze** – decision support
- **Improve** – build on knowledge and experience

CONTENT AGGREGATORS

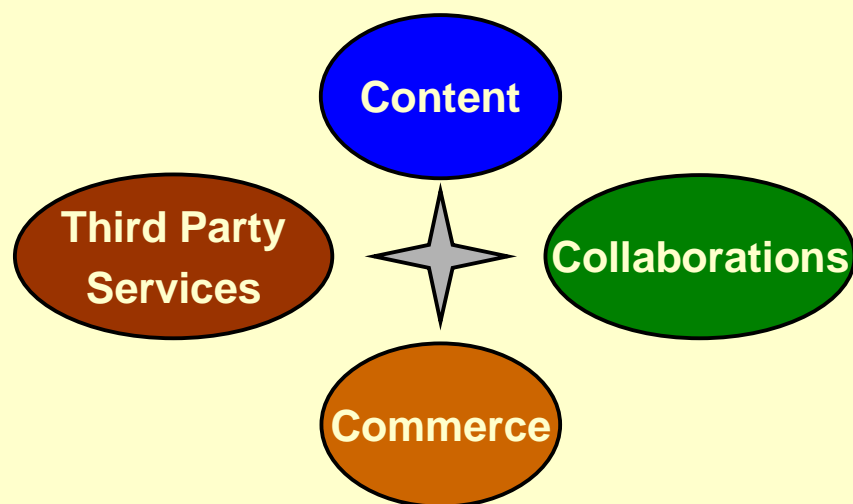
The diagram shows a central box labeled "Multi-Exchange Content/Catalogs" connected to four nodes, each represented by a yellow diamond with a black cross. The number 52 is at the bottom center.

The Challenge of Managing Content

- 60% of Catalogs on paper
- Remaining 40% in cryptic format meant for machine to machine interaction
- Redundancies and abbreviations
- Synchronizing content a challenge; constantly changing
- Categorizing content for user friendly, parametric search requires expertise
- Must support multiple languages, currencies, units of measure, and customized views

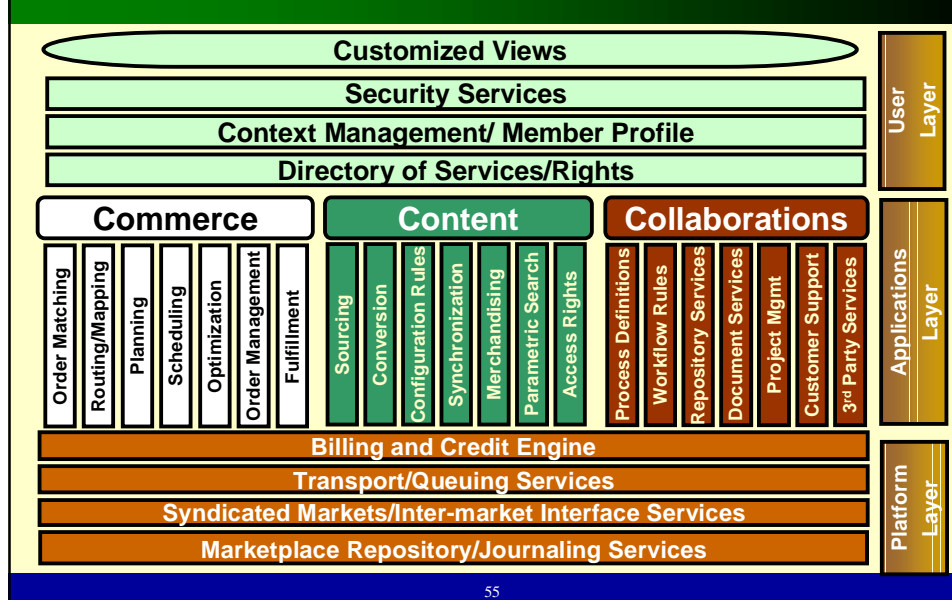
53

E-Hubs The Pillars of Value



54

E-Hub Architecture The Service Matrix



55

Is the Fat Lady Singing for Middlemen?

- No but she's clearing her throat
- Geography created a market for intermediaries
- But not so fast, new intermediaries are being created
- Distributors can still add value
 - Sourcing
 - Certification of products and suppliers
 - Aggregation of demand
 - Credit and inventory
 - Displaying catalog content from multiple suppliers,
 - Finding difficult to locate products
 - Serving unique needs of preferred customers
 - Advising customers on product life cycles

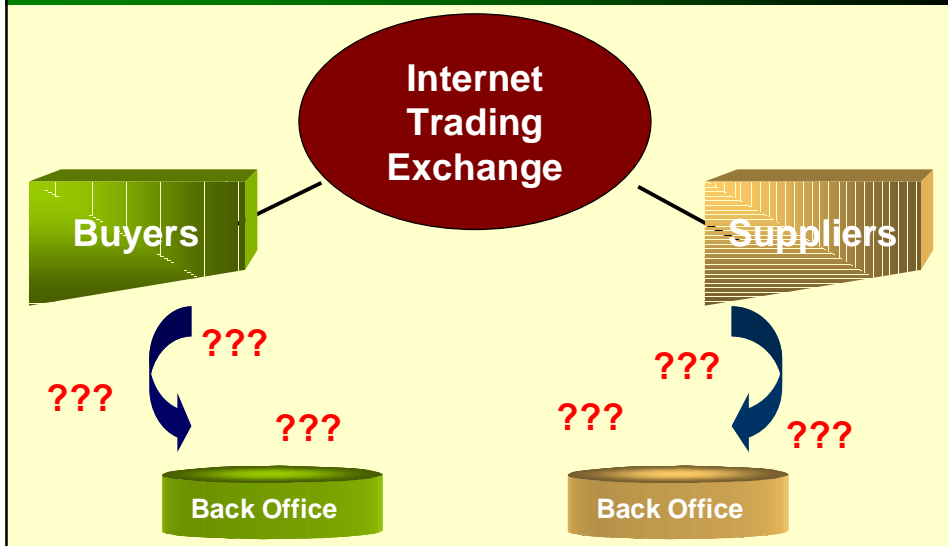
56

Tread Carefully Middlemen - To Zap or Not to Zap...

Key Considerations	Disintermediation Likely	Distributor Entrenched
Inventory	No physical inventory held/shipped	Physical inventory; drop ship for producer
Multivendor	Few or one product line	High number of vendors/product lines
Order fragmentation	Concentration of orders; small in number high in dollars	Fragmentation of orders; small in dollar size but high in number
Customer support	No or little customer support	Customer support; call centers
Customer Relationship	Identity of customer known to producer	Identify of customer unknown to producer

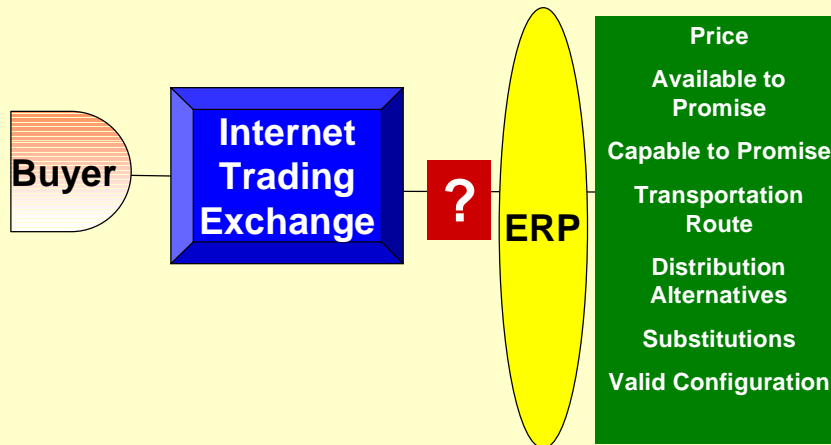
57

A Backoffice Disconnect



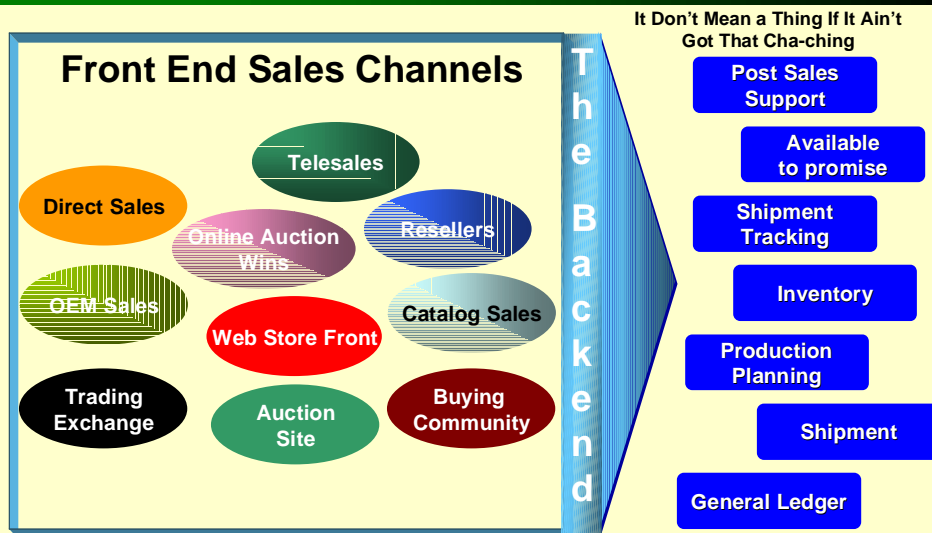
58

B2B Exchanges – They Need the Backend Info



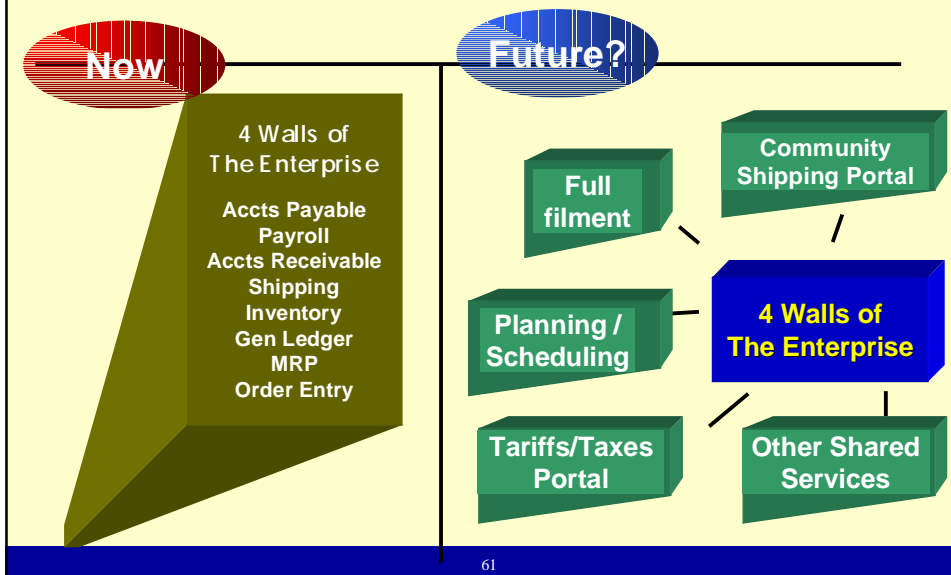
59

E-commerce – More Sales Channels Same Backend

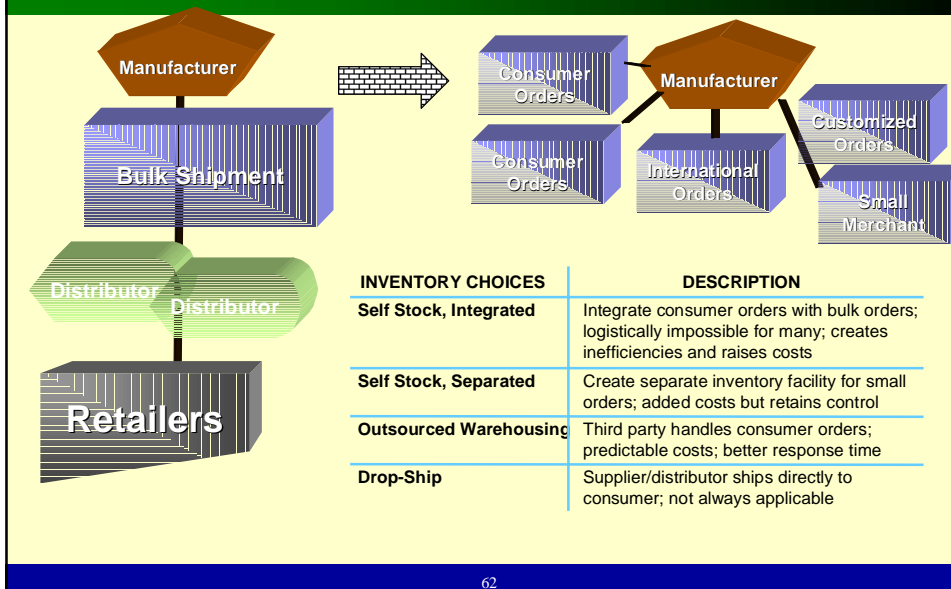


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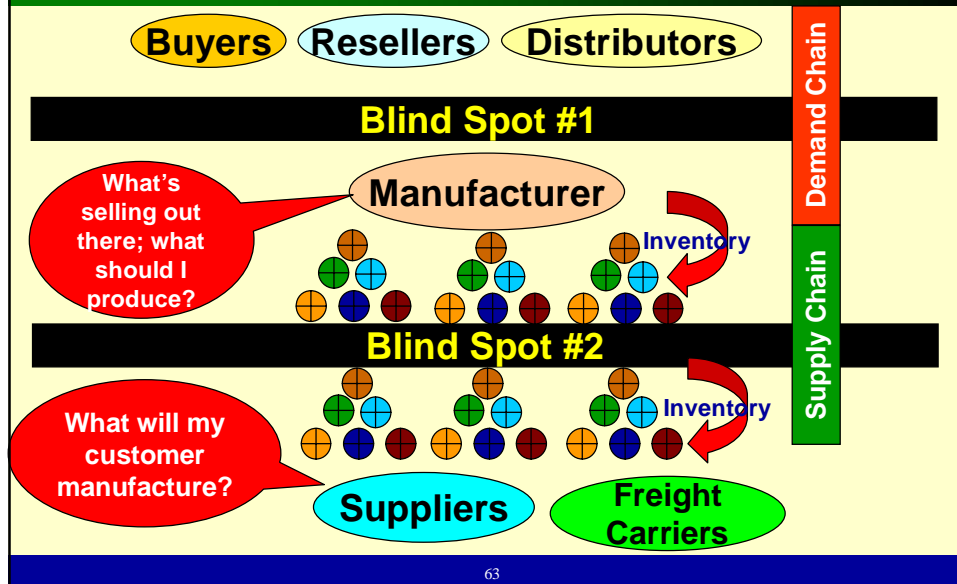
Enterprise Apps Lose Functions to Portals



The Logistical Nightmare of E-commerce Operations



Blind Spots in the Chain of Commerce



B2B Buyer Under Stress I Need It Now!

- Available to promise – in stock
- Capable to promise – can be made by DD/MM
- Substitute products
- Transportation alternatives
- Valid configuration
- Partial ship/backorder
- Fill or Kill option

B2B Supplier Under Stress Limited Resources...

- Is this a profitable order?
- What's the incremental cost of rushing this order?
- Are there substitute products?
- Will they wait if I lower the price?
- Fill or Kill option – should I kill this order if I have five larger ones behind it?
- Is a component backordered; if so, don't rush ship?
- Is this a premier customer; then fill it anyway?
- Is this a new customer I want to impress?
- Do I want to fill high margined orders first?
- A machine is down; what orders should I accept that by pass that equipment and minimize setup?
- All my suppliers should be asking the same questions

65

The Drivers to E-Hubs

- Lower inventory
- Lower interaction costs
- Process transparency; internal and external
- Digital audit trail; better measurement
- Improved 24 x 7 service; multi lingual
- Leverage expertise
- Enhanced discovery

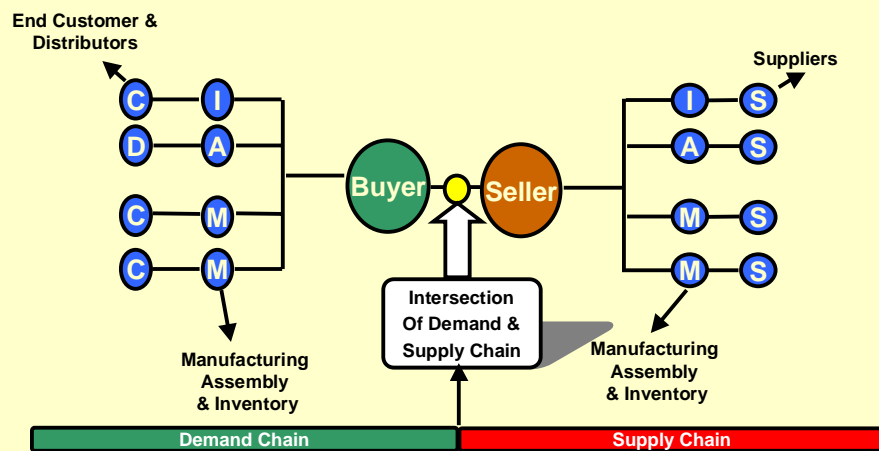
66

Nuts & Bolts... Real Impact from B2B

Ordering	Reduce order costs; increases sales per rep; richer ordering experience; real time substitutions; pricing based on availability/quality; accurate configuration
Inventory	Early notice of demand; reduce overall inventory levels throughout the supply chain; substitute products and availability alternatives
Logistics	Better capacity utilization of transportation resources; inter-company planning and scheduling; instant fulfillment
Billing	Reduced billing cycle; reduced errors; improved cash flow; more complex pricing capability
Customer Service	Better history of customer behavior; personalization; marketing campaigns more accurate and measurable; 24 x 7 support; leveraged expertise

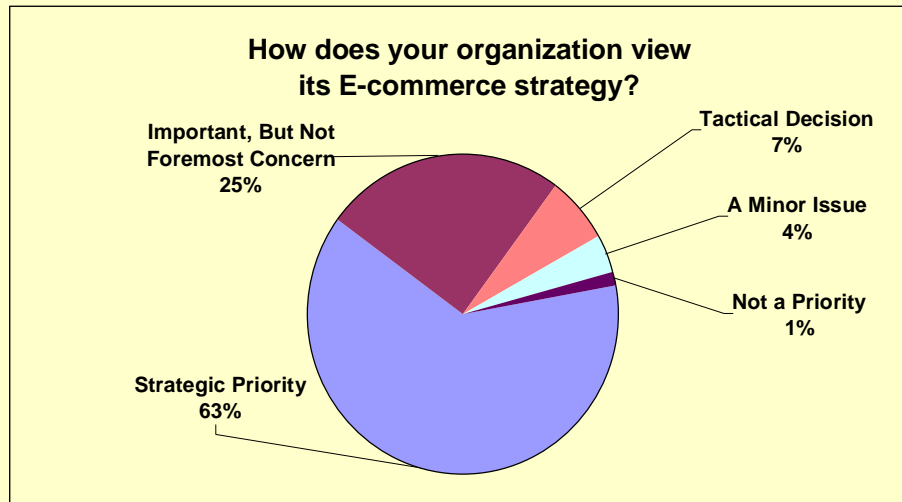
67

The Head & Tail of B2B Transactions



68

E-Commerce – High Priority



Survey Date: October 1999

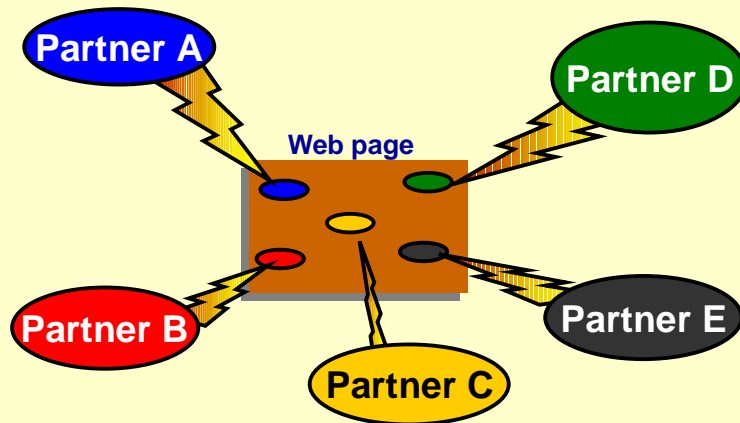
69

The New Application Service Model

- Enterprise software fuses into the network
- Software as a service; market the URL
- Centralize complexity
- Facilitate specialization
- Broader access – reach of the Web
- Faster cycle times – from growing the crops in the field to fast food; order of magnitude change
- Versionless software
- Capacity, transaction, or subscription charges
- Slower ramp in revenue; more predictable

70

Dynamically Linked Content Community Application Services



71

What Can Go Wrong?

- Look but don't book buyers; transaction done offline
- Content takes time to clean up and load
- Inadequate payment systems
- Lack of sourcing capabilities
- Lack of supply chain and backoffice integration
- Brick and mortar companies can do a lot of this
- Barriers to entry low; consolidation likely; transaction fees will fall dramatically
- Middlemen live off razor thin margins even with geographic protection

72

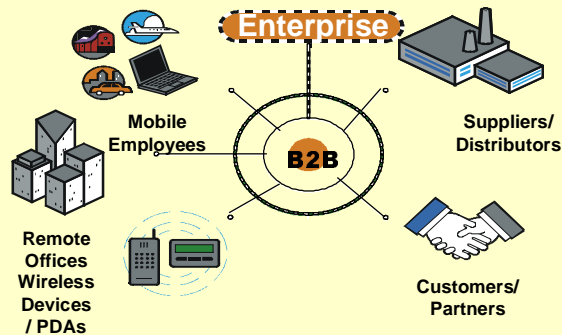
Top 13 B2B Conclusions

1. B2B will be much larger than B2C, and the groundwork may be laid faster than it was for B2C, due partly to B2C lessons learned, and partly to significant opportunities for business efficiencies.
2. The timing is now; infrastructure is in place and company managements feel an urgency to act post-Y2K.
3. Exchanges will introduce unprecedented market transparency across industries - highlighting strong and weak competitors.
4. Micromarkets will proliferate; specialized markets can survive. Leading service providers should excel.
5. Exchanges will have to add collaboration to create stickiness. Simple buy/sell transactions will be almost free, like e-mail. B2B winners will establish "platforms" that link deeply with their customers - we call them e-hubs.
6. Domain expertise will be key; deep may beat broad.
7. Many B2B business models look suspect and most probably will fail; exchanges have low (middleman-like) gross margins. Most exchanges planning to survive off trading volume are in for a rude awakening and transaction prices get squeezed for simple order matching. Hunting for high gross margins is key.
8. Equity sharing with customers (i.e., win-win partnerships) and M&A activity will play a critical role early in attracting transaction volume.
9. Some middlemen will be critical participants in exchanges; they have important relationships and valuable domain expertise.
10. Companies will substitute information for inventory through improved supply chain transparency.
11. A few key buyers can drive a market quickly; large buyers siding with exchanges can create binary outcomes quickly. In B2B, finding the "tipping point" is key. Industry-sponsored exchanges are only viable if they are win-win for both buyers and sellers and create an atmosphere of independence.
12. Buyers and suppliers win: Buyers get more uniform, predictable pricing with real-time information on availability as well as better controls over their own procurement processes. Suppliers can more intelligently plan production, reduce inventory, customize promotions for buyers, and lower their order processing costs.
13. Partnering and specialization will be defining elements of the new economy and e-hubs will facilitate the transformation.

73

B2B Networks = Global Transparency

The Power is in the Connectivity of the Parts



McNealy says "The Network is the Computer"...
Perhaps it's "The Network is the Business"...

74

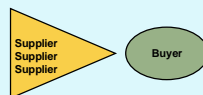
Representative B2B e-Commerce Business Models

75

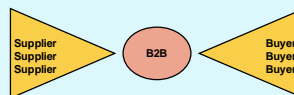
Representative B2B e-Commerce Business Models

- A number of B2B models have emerged, representing different e-Commerce solutions for differing industry needs

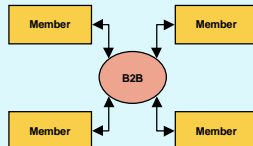
Procurement
Empowering the Buyer



Distributors / Market Makers
Multiple Buyers to Multiple Suppliers



Business Process Managers
Manage Complex Business Interactions Online



76

Representative B2B e-Commerce Business Models

- Multiple companies across multiple industry sectors have emerged within each B2B business model

Procurement / Market Technology Platforms

Empowering the Buyer

- **Ariba** – Procurement Software
- **Commerce One** – ERP Procurement Software
- **Oracle** – ERP Procurement Software
- **SAP** – ERP Procurement Software

Business Process Managers

Managing Complex Business Interactions Online

- **Agillion** – Small Business Services
- **Bidcom/Buzzsaw.com** – Construction/Real Estate
- **e-Travel** – Corporate Travel
- **Employeease** – Personnel Management
- **freightquote.com** – Transportation
- **Healtheon/WebMD** – Healthcare
- **Noosh** – Commercial Printing

Distributors / Market Makers

Multiple Buyers to Multiple Suppliers

- **Adaction** – Advertising
- **Ventro** – Life Sciences, Specialty Medical, High-Volume medical, Fluid Processing
- **ChipCenter** – Electronic Parts
- **e-Chemicals** – Chemicals
- **eLease** – Leases
- **Staples.com** – Business Supplies & Services
- **Ariba/Commerce One/Oracle/SAP** – Network
- **ChemConnect/Commerx** – Chemicals/Plastics
- **e-Steel** – Metals
- **FreeMarkets** – Industrial Products
- **Manheim Interactive** – Used Automobiles
- **NTE** – Transportation
- **PaperExchange/fibermarket** – Paper Products
- **TradeOut/ZoneTrader** – Idle Assets & Inv.
- **XS Inc.** – Agriculture

77

Representative Market Makers - Traditional Industries Move Online -

- **Examples by Market... Industries you probably thought were laggards...**

<u>Market</u>	<u>Company</u>
Agriculture	XS Inc.
Autos	Manheim Online
Chemicals	ChemConnect, CheMatch, Commerx
Computing / Electronics	FastParts, PartMiner
Energy	Automated Power Exchange, Houston St. Exchange
Finance	IMX, Limitrader, MuniAuction
Floral	Floraplex
SeaFood	GoFish.com
Idle Assets & Inventory	TradeOut.com
Industrial Products	FreeMarkets.com
Marine Products	Marex.com
Miscellaneous	BizBuyer, TradeOut.com, VerticalNet
Paper Products	FiberMarket, PaperExchange, Inter-Continental Paper Exchange
Real Estate	CommercialSource (homestore.com), LoopNet, PropertyFirst.com
Steel	E-Steel, MetalSite
Telecom	ArbiNet, Band-X, InterXion, RateXChange
Transportation	National Transportation Exchange, IATN

78

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