Consumers Rejoice

On-line buying cooperatives will make you a mover and shaker. Yes, you the consumer will lead the web commerce revolution!

by Genni Combes

Today, far too much of what is called e-commerce simply represents an additional channel for buying the same things at the same price. In too many cases, no price differential exists, despite the fact that e-commerce supposedly represents a more efficient distribution mechanism. The primary value-added offered by e-commerce merchants is often represented by a combination of better information, greater selection and increased convenience. There is no question that these are all important attributes when making a purchasing decision. But is this the big revolution that we have all been waiting for? Hardly.

Amazon has clearly taken things one step further, offering incredible discovery, selection and convenience, while acting as a low-cost provider at the same time. Not only can I, the consumer, leverage collective intelligence to find books and CDs likely to interest me, but I can purchase them at a significant discount. But this too isn't the revolution we've anticipated.

Indeed, fellow consumer, you ain't seen nothing yet. What has happened to date will be considered trite and boring when compared to what is coming. The future of how you buy products and services and how vendors market them to you will radically change over the next decade. Well-entrenched beliefs about direct marketing and branding, taught by the best of the business schools today, will be thrown out the window, and completely new techniques will be created. The best part is that the consumer, by collaborating with other consumers, will set the rules of the game, and finally gain the respect his or her purchasing dollars deserve.

Consumers will soon influence the market in unimaginable ways. Starting today, each consumer should be asking what a merchant or vendor is doing to further advance his or her own personal goals. Are they saving you money or time, or giving to a charity you support? Granted, consumers have been asking those questions for centuries, but now they will actually be able to heavily influence the answer.

Remember, the Internet makes many new things possible. For example, the
dynamic and collaborative aspects of the Web enable on-the-fly meetings between individuals with common interests. Spontaneous communication has occurred for some time now in chat rooms formed by investors, techno-geeks and moms alike.

So why shouldn't these affinity groups start aggregating their buying power? They will. The true consumer e-commerce revolution centers around aggregation and collaboration. Consumers will take advantage of the basic fundamentals of the Internet, capitalism and supply and demand curves to drive efficiencies and, in some cases, create better outcomes for society. Church groups will aggregate demand to influence charitable giving. New moms will bind together to save money on car seats. And these same moms will be able to make good purchasing decisions based upon the readily available knowledge of more experienced moms.

In most cases, buying cooperatives will be facilitated by trusted infomediaries, who will help organize consumers, represent them and match them with interested vendors. These infomediaries will have solid technology engines that facilitate complex transactions and aggregate massive amounts of data. Successful infomediaries will always respect the privacy of individual consumers but will leverage data collected from them to represent their interests collectively. Several companies are laying the groundwork for this upcoming revolution and taking very different approaches.

**Aggregate Philanthropy**

Charitableway is a philanthropic infomediary. The company's first charter is to facilitate workplace giving by reducing friction and providing great access to information on various charities. In essence, the company is creating a marketplace for giving.

The opportunity to extend this marketplace to both on-line and off-line commerce is quite exciting. Imagine the power of consumers banding with other consumers who share their philanthropic interests. People within a church could aggregate buying power and instantly leverage it to drive donations for those left homeless after an earthquake or flood. Local communities could employ virtual marketing to recruit friends and family into a buying circle in exchange for even more dollars. Why not recruit grandparents into a buying circle designed to put art programs back into schools?

Not sure to whom you want to give money? Simply create a charity committee to leverage the independent research found on the Charitableway Web site, make a decision and place an offer for Charitableway to shop to multiple potential vendor sponsors. The concept is rather like trading stocks. Are you interested in a long-term charity program focused on the environment but not sure of which charity to pick? Purchase an environmental mutual fund. The portfolio will be managed for you, and contribute quarterly based upon your group's collective purchasing transactions. Boy, will the holidays be good for the ozone layer! Maybe Christmas will stay white!

Over the past several years, the most successful Internet companies have
leveraged public relations to become more influential and create buzz. Soon, consumers will collaborate and leverage PR to influence them. By aggregating purchasing power and leveraging PR, consumers will fundamentally change the way vendors think about and manage their businesses and their brands.

As an example, consider that vendors have the opportunity to create more meaningful customer relationships based upon mutual benefit. This concept fits into the emotional and collaborative aspects of successful branding today, which Agnieska Winkler champions in her book *Warp Speed Branding: The Impact of Technology on Marketing*. In this book, Winkler convincingly argues that enterprises are better off branding the company than individual product lines, while also highlighting the success of collaborative branding enjoyed by such companies as Intel and Dell. Charity is 100 percent about branding the company, not the product. By championing a charity that is important to the customer, the company creates a mutual goal that can lay the groundwork for a long-term relationship with the consumer, one that outlives multiple product cycles. With respect to collaborative branding, co-branding with charities could be raised to new heights.

Second, merchants and vendors will increasingly leverage charitable giving to reduce customer acquisition and retention costs. Consider it a direct reallocation from sales and marketing expenditures to charitable giving. Consumers see far too many advertising impressions each day. They are being bombarded. This past holiday season, the radio ads hyping the latest "dot com" became almost unbearable. Even the radio announcers got into the game, promoting their favorite Web site within the context of the show. It's no wonder consumers are becoming numb and cynical, or that they are increasingly turning to one another to find "authenticity." Merchants and manufacturers will increasingly recognize that the money currently spent on advertising could be more effectively spent by giving something back to the consumer, in exchange for both their own purchases and the recruitment of friends and family. Who doesn't want a new customer? Who doesn't want to attract repeat purchases? Sales and marketing dollars will likely be reallocated not only from e-commerce merchants but also from big brands. Some $75 billion is spent on consumer advertising in this country. And $175 billion is donated each year in charitable contributions. Even a small reallocation of advertising dollars could have a meaningful affect on total charitable giving. From the consumer vantage, can you think of anything better than reducing the level of ad noise, while contributing to something you care about?

**Collective Buying Power**

Looking to save money? Want to make better purchasing decisions without expending a whole lot of effort? Collaboration will also play a critical role in achieving these worthwhile goals. *BizRate*, for instance, harnesses the collective experience of millions of consumers to create a powerful shopping engine. This device enables consumers to buy with confidence, while pocketing rebates. Their message to the consumer is simple: "Don't Get E-Screwed!"

The site offers an unbiased rating guide, built by and for millions of on-line
buyers. Merchant ratings are compiled using continuous feedback, which is solicited from millions of consumers as they make actual purchases and after fulfillment at more than a thousand of the Web's leading stores. Consumers are invited to fill out a survey regarding their purchasing experience at the point of sale. BizRate's members then rate each e-merchant, allowing positive experiences by brave, early adopters to pave the way for the rest of us. Just as important, consumers can instantly learn to avoid certain merchants, based on bad reviews. Moreover, BizRate combines this aggregated data with engine technology to direct individuals to the best store, based on specific preferences.

By cleverly consolidating e-merchant affiliate programs, BizRate also saves consumers real money. Affiliate programs are customer-acquisition vehicles, championed by key merchants. They work as follows: E-merchants pay a percentage of a transaction to on-line partners who refer customers to their site. The on-line partner becomes an affiliate of the merchant and receives a rebate on each sale. BizRate is an affiliate of hundreds of merchants and passes the entire rebate amount back to the consumer. All the consumer has to do is use a BizRate e-mail address when conducting a transaction. BizRate posts on its site the names of e-merchants who offer the highest rebates. Moreover, BizRate members can request that BizRate direct them to e-merchants based on the most compelling prices. It is that simple.

Once again, this is only the beginning. A recent strategic co-publishing deal between Consumer Reports and BizRate is clearly a precursor of what is to come. Ultimately, this concept can be drilled down to the product level. Consumers will get product recommendations not only from unbiased experts but also from a Consumers Union before they aggregate their buying power.

So why do e-merchants participate? Sellers who have nothing to hide gain the opportunity to advertise great customer service at the point of purchase. Moreover, e-merchants have the opportunity to leverage existing customers to attract new customers, reducing the cost of customer acquisition—a key metric by which Wall Street measures e-commerce companies. Finally, sellers have the opportunity to receive impromptu marketing research in an aggregated form, which enables them to adapt their product mix and services to customer needs more rapidly than before. This sort of competitive advantage will become increasingly important over time.

Hence, BizRate, with the help of its constituency, acts as a consumer advocate, while helping e-merchants (and ultimately manufacturers) run their businesses. The end result is that the transaction becomes more efficient.

Supply and Demand "in the Moment"

The more people that want to buy something, the lower the price. This is the basis of the Mercata PowerBuy. You canvass your e-mail list, looking for people who might want to buy what you want to buy. Suppose it's a big-screen TV; check them out at the store and then type the model you want into your Palm Pilot. Maybe you can get a volume discount via a PowerBuy. Mercata provides consumers with the opportunity to leverage the buying power of thousands of others who are interested in the same product at the same time.
Supply and demand curves meet in the moment to create the ultimate, efficient transaction.

The beauty of this buying experience is that rather than competing with other consumers who are bidding prices up (an auction environment), consumers are working together to bring prices down. In essence, the more people who join together to buy, the lower the price goes for everyone. Key to this sort of transaction is a flexible pricing system called the PowerBuy. PowerBuys are limited-time buying opportunities during which consumers directly influence pricing. As more consumers decide to purchase a specific item, the efficiency increases and the price decreases. Consumers have the flexibility to accept the current offer at market price or place a limit order. Once again, it is sort of like the stock market. Consumer affinity groups--whether a baseball league, a mom's group or a senior citizen's club--can pool their buying power and bring prices down!

So why will manufacturers participate? Well, in part, because they will ultimately have to in order to preserve market share. But there are additional benefits. Mercata captures demand curves. Aggregation of information is very useful to sellers as well as buyers. Such information creates efficiencies with respect to production schedules and inventory management--all of which takes cost out of the system and enables better pricing for consumers.

**Want a Personal Shopper?**

Are you looking for an antique Art Deco lamp that you saw in Architectural Digest last month that you can't find anywhere? Interested in going river rafting in Costa Rica for vacation but don't have the hours to spend doing the legwork? Let Respond.com shop for you. Submit a request in plain English and receive e-mail responses from numerous category-specific sellers around the country via Respond.com. You remain anonymous. With Respond.com, you fill out one request form and they e-mail it to all relevant sellers, who present their merchandise without knowing your identity. You can compare all seller responses, and find the deals that suit you.

The best part is that you, the consumer, pay nothing. Sellers pay to receive your request. They are paying, in essence, for you to have a personal shopper who represents your interests and does the work for you. Once again, advertising dollars are being redeployed away from the major networks, radio stations and news publishers so that you can have a better, faster shopping experience.

Gift giving too will become easier. For all of us who are tired of trying to figure out what friends and family want as gifts, Della & James is creating a service that put multiple merchants on one site, focused entirely on gift registries and virtual wish lists. Their first application deals with weddings. Brides and grooms register on Della & James and then their guests can shop for a gift there. The registry includes merchandise from premier merchants, including Williams Sonoma, Crate and Barrel and Gump's, who will ship your purchase directly to the bride's home. So next year you can create a universal family wish list for the Christmas holidays and everyone will get exactly what they want.
This article presents you with just a few of the many infomediaries now delivering power to the consumer. To conclude, I will offer a few predictions of macro-oriented derivative effects. For one thing, deflationary trends will intensify, and disintermediation will continue. Indeed, travel agents and automobile salespeople will be a thing of the past, but customer service will continue in new and different forms. Also, the current spate of junk mail and dot com advertising will dissipate because such ads will become increasingly ineffective. And when consumers like a new service or product, they will spread the word to thousands of others within seconds. As soon as consumers recognize their power, they will seize the moment and collaborate--leading the e-commerce revolution.

Related Link

Electronic Commerce Guide

The Author

GENNI COMBES spearheads the business-to-consumer e-commerce effort at Hambrecht & Quist. In addition to ten years of experience on both the buy and sell side of growth equity investing, Genni has participated in a number of key e-commerce offerings, including Amazon.com, E-Loan, E*Trade, Intuit, ONSALE, and Preview Travel. Genni is a frequent speaker at industry conferences that address both the e-commerce opportunity and the merging of the offline and online arenas. Genni was recently recognized as a 1998 Home Run Hitter by Institutional Investor Magazine and as the #2 stock picking analyst in the Internet space by the Wall Street Journal. Prior to rejoining H&Q in 1992, Genni was buy-side analyst at FIVAL in Paris, France.
The Future of Electronic Commerce

by Jeanne Terrile

We live in an extravagant age. The stock market is at record levels; U.S. consumer spending is at all time highs; billionaires are practically commonplace; and almost everyone, from real estate developers to securities analysts, recognizes that just being famous is a desirable end in itself. Against that backdrop, electronic commerce could not have blossomed at a more auspicious time.

Whatever electronic commerce really is (and we all hope to get to an understanding of that one day), it is currently portrayed in the media as both the death knell and the salvation of business. It has produced fortunes by the thousands. And claims of its growth potential are lofty: annual forecasts of doubling, tripling and quadrupling are commonplace. Just how famous is electronic commerce? Do a Lexis/Nexis search on e-commerce news stories from the last week and you will be told that such a search cannot be done because it would yield too many results for your PC to process.

E-commerce is, in short, the most outrageous business story to come along in our lifetime. The stock market has validated the concept with valuations that continue to outstrip all traditional metrics. And although it is popular in some circles to denigrate Internet stock valuations, they do have two very important real-world consequences. First, they give companies a valuable currency with which to pay employees; and they result in a very low cost of capital for Internet companies. That low cost, in turn, gives them an advantage that their traditional competitors do not enjoy.

Sociology of E-Commerce

Beyond the extravagance of our times, there are certain other, let's call them sociological elements, that make the focus on the Internet so interesting. The late 20th century has seen the triumph of democracy and individuality worldwide, and the Internet is, after all, thought to be the ultimate empowerment vehicle. The Internet has the potential to level the playing field between professionals and amateurs, and between buyers and sellers, by giving everyone a platform (a Web page) from which to speak.
Although the Internet has spread globally--and will surely spread even faster as other countries attain enough PCs and the cost of usage inevitably drops--it began in the U.S. and remains a very American phenomenon, well suited to the American love of speed, consumption and independence. There is also a generational element in the success of the Internet. Just as baby boomers owned politics, generation X'ers own technology. General Electric, for example, has set up separate Internet organizations inside each of its businesses under the name "Destroy your business.com." Those over thirty need not apply.

Business leaders and stock investors have to work hard to get beyond the hyperbole and find out what this revolution, or evolution, really means. For instance, we have heard very little about what might happen to the growth of electronic commerce in a recession, when the desire to shop diminishes and corporations feel less benevolent toward each other. When profits are scarcer and stock prices softer, will electronic commerce still be seen as a structural change or just another tool for doing business?

Lack of Critical Analysis

Much of what is written about electronic commerce now is surprisingly uncritical. Indeed, the November 8th issue of Fortune suggests that traditional "bricks and mortar" companies will be doomed by a failure to get on the electronic commerce bandwagon even though, the author asserts, "it's still unclear what really works on the Internet!" There is also a presumption that early advantages will not change; some Net retailers, like Dell and Amazon, are lauded for collecting from customers before they pay their suppliers, but this is a situation that Internet-enabled suppliers or competitors may try to change.

If the Internet makes it easier to retain customers by providing them with lower prices and more specialized services, won't competitors have equal access to the technology that makes all of that possible? In a fast changing, highly competitive business environment, will producers, suppliers and customers always be as open with each other as electronic commerce enables them to be? The future, after all, remains uncertain, and no company will want its shareholders to bear a risk that could be passed to another company's shareholders along the supply chain.

When investors focus on the value of the e-commerce enterprise versus the value of the traditional enterprise, they tend to implicitly accept at least one premise. Namely, they assume that it is easier for the new e-entrant to move backwards into (or to control the outsourcing of) production and even fulfillment than it is for the traditional enterprise to move forward into open e-commerce sales and marketing. But common sense seems to imply that--with hundreds of new Web businesses being created every day and few new GM's, GE's or Kraft Foods--the Web end may be the plentiful resource.

The Essence of E-Commerce

Electronic commerce offers an extended reach beyond traditional geographic markets at reduced costs and at high speed, and it has the potential to make
these offerings to everyone equally. Therefore, one of the first consumer battles fought on the Internet is the battle to become a broadcaster and attract the most participants. Major sites or portals, such as Yahoo and AOL, seek to become the dominant place to sell—in effect trying to become the New York Times or the NBC of the Internet.

Reaching that goal can be expensive. These companies spend heavily on advertising and promotion (ironically in the old media of TV and print), while their own sources of income still undergo change from advertising and sales fees to licensing and subscription fees. There is even the question of whether some net companies actually have any revenues or they are just bartering advertising space and time among themselves.

The desire to become the Internet broadcaster co-exists with the notion that one of the real strengths of the Internet is its ability to pinpoint and sell to certain groups—so-called narrowcasting. The cable industry presents a model: channels that were once narrowly focused, like Court TV, CNBC or the Turner channels, have all expanded their product offerings, yet new narrowly focused cable channels (pets, gardening, decorating) emerge every day. In both media, the expansion of choices can confuse consumers. This confusion creates opportunities for new intermediaries, or "bots," to help consumers narrow their options and save the time they were promised in the first place. Consumers may wonder, though, whether the "bots" operate impartially between buyers and sellers.

Perhaps the greatest strength of the Internet is its ability to unite disparate groups to disparate groups, and to facilitate contact among the scattered for the exchange of goods, services and information. Recognizing the value of that function has produced some of the most successful early Internet players, the on-line auction sites. They are the ideal infomediaries in the Internet space, with few of the philosophical or organizational conflicts (in particular, the problem of fulfillment) that bedevil others in the same space.

Other functions that appear likely to thrive on the e-commerce model include the delivery of financial products and other services. The problem of fulfillment, which has plagued many retailers whose virtual infrastructure is not always prepared for the practical aspects of having to deliver a physical product to a physical place, does not apply to services and financial products because their content is not physical. In that case, the Web itself becomes the fulfillment vehicle.

**Business-to-Business Applications: The Next Wave?**

Most industry experts expect that the next force in electronic commerce will be business-to-business exchanges, and most of the new companies entering the public marketplace are participants in this arena. But will business be as quickly transformed by electronic commerce as consumer retailing has been?

We start with the premise that a consumer purchase is a discrete event—both in general and in particular on the Internet, because the essence of the Net is to provide enough information to encourage the consumer to move from one seller
to another (not, obviously, the seller's desire). So a consumer can buy one shirt from LandsEnd.com, another from JCre...
competitors (there were none). Deregulation changed all of those relationships, and many believe that electronic commerce could do the same.

The business-to-business e-commerce model is based on an open system of information that can move swiftly and cheaply along the value chain from the earliest commodity suppliers to the ultimate customers. Unlike legacy systems, where producers create inventories of products from which consumers can choose (supply chain driven), the e-commerce model makes the consumer the trigger that begins the process (demand chain driven). This is mass-customization, or the ability to build huge numbers of products, each tailored to a specific set of customer requirements. Mass customization has always happened in the auto industry, where buyers can choose cars augmented with a variety of options.

In fact, mass customization drastically shortens the lead-time because information about needed components can move speedily along the Net from suppliers to producers. It also extends the principle to lower priced goods. (Mattel's Web site, for example, lets consumers customize a Barbie doll. Although this is an appealing concept, it did little to offset other problems at Mattel, which caused the shares to lose almost half their value in three days last October—a reminder that other factors besides e-commerce still affect businesses.) The lower costs of Internet-carried data (versus EDI) should also help to open up smaller companies to the possibilities of mass customization.

Many believe that the openness of information between companies in the e-commerce model will lead to more outsourcing of non-core functions. The idea is that the assembly line moves away from a vertical function inside individual companies and becomes a horizontal function across companies. This shift should reduce operating costs, inventory and procurement costs, and hasten both billing and receivables collections.

Implementation of the model, however, creates serious questions that all companies will have to address. Opening the enterprise up to the outside world creates issues of vulnerability, especially when proprietary processes and patents are involved. Because these things are usually carried on the balance sheet as assets, managers will have to ask if the value created by the new model exceeds the value that might be destroyed. Does the narrowness of function—a concentration on core competency—raise or lower the risk for stockholders?

The conventional view is that e-commerce empowers employees further down in the organization—a sort of distributed system versus the old mainframe of centralized management. But strong corporate cultures and leadership are needed in organizations to guide them through a constantly changing business landscape. In fact, we think the argument can be made that after two decades of restructuring and downsizing at the hands of their own management, companies may need more centralized control to enable them to survive pressures coming from outside the organization.

What All Companies Are Likely to See

The changes fostered by e-commerce will likely affect all businesses, whether
they fully adopt the e-commerce model or not. For one thing, how companies determine pricing will change. Traditionally, price derived from costs, but in the e-commerce model, costs are constantly changing because they are based mostly on the level and customized nature of demand. Should volume buyers get bigger discounts than those who buy just a few items? Should prices vary by geography? And will price be the only basis on which e-purchasing is done? In fact, studies are beginning to show that buyers chose e-vendors for service capabilities as well as price. Marriott says that rooms sold over the Net actually carry a higher price tag than those booked by travel agents because Marriott adds extra features, like local maps, to the Web transaction—for which consumers are willing to pay. If that is so, electronic commerce may not be the long-term deflationary force that some have predicted.

Strict adherence to the e-commerce model makes the presumption that a focus on core competencies is best, with all other functions outsourced to more efficient providers. But e-commerce creates a conflict between narrowness and scope. Because overhead does not rise in the e-commerce model when volume rises, companies in the future may wish to consider mega-mergers instead of divestitures. In fact, many companies in pharmaceuticals, financial services and in Net commerce itself have followed the merger path. The goal of these mergers is to create a richer product line to sell to an existing customer base.

Companies of all kinds will have to rethink their relationships with their sales force and distribution systems. Channel conflict is a big risk. Could companies like Home Depot ultimately become major competitors with their own suppliers? Or will suppliers bypass the HD distribution system, go direct to the consumer and try to keep the distributor's margin for themselves? The value of brands and proprietary processes becomes more complex in the e-commerce model. Well-established brands may increase in value as they help products stand out from the increasing clutter on the Internet. But they may also appear more vulnerable in a totally open system, and, if price comes to dominate e-commerce transactions, even the strongest brands and processes could be undermined.

E-commerce models allow global reach, and e-commerce reduces barriers to entry; startups are cheaper, results can be seen more quickly, and the price for failure appears low because there are few investments in fixed assets. Companies in the future will have to face a constant barrage of new competitors with new business models and new tactics. The cozy days of a producer responding to the pricing policies of a competitor down the road—say, Ford offering rebates when Chrysler does—may be over.

Older companies must figure out ways to capitalize on their existing strengths. It is important to remember that beyond the transaction done over the Net, someone still needs to maintain the infrastructure for delivering the physical product to the buyer. Fulfillment is usually a strength of the brick and mortar world and a weakness of the e-commerce world. Companies like Fingerhut and Grainger have used their expertise in traditional parts of the value chain (namely, distribution) to become outsourcers to Web newcomers.

Because of the ubiquity of information in the e-commerce model, advocates
expect markets in the future to be much more efficient. If fact, e-commerce could produce nearly perfect markets by eliminating transaction costs; electronic billing and payment reduces administrative and float costs to almost zero. In such a market, size shouldn't matter and big companies should have no advantages over smaller ones. But where will small companies come from? In a less perfect world, inefficiencies in pricing and cost structures can create an umbrella that encourages new competition to enter. Without that umbrella, new entrants may be only those with a revolutionary new idea, which is rare. The lack of new entrants could slow growth, lead to monopolies and even undo the democratization of the business process that electronic commerce brought on in the first place.

Social consequences of business decisions are not a popular topic, and when GDP growth is robust and unemployment is low, economies can easily absorb those dislocated by the adoption of new processes and new systems. In such an environment, the vision of an ever-changing, unstable business world may not be so frightening. But there will likely be a time in the future when such dynamic change conflicts with declining growth. Stranded assets, whether human or capital, will have a cost to be borne by even the most flexible of enterprises. Readers might take the end of the Cold War as an analogy: The euphoria of the early years overshadowed the cracks beneath the surface. Today those cracks are widening into greater political and social disorder. Balance sheets, the pricing of and need for capital, and the ratios by which successful companies are measured are all likely to change in the e-commerce model. Instant payment systems will affect payables, receivables and working capital ratios. Dell is said to have negative working capital, a goal to which General Electric, with $110 billion, aspires. Inventory should be hard to find, and the need for short-term capital to finance it, like commercial paper, may disappear. Do long-term contracts, leases and licensing agreements mean something different in an era of demand-driven pricing? Are brands and goodwill more or less valuable? Is an actual customer an asset that should be depreciated? Are the marketing costs to get that customer (costs that are now expensed to current income) really the equivalent of capital costs in the legacy world and should they be capitalized? And will the virtual nature of e-commerce put fixed assets in the same "stranded asset" situation in which utilities found themselves when the power industry was deregulated?

Before despairing over the ever-shifting financial ground beneath the e-commerce model, readers may want to consider a comforting irony: Amazon.com, the quintessential e-commerce creation, is now investing more in distribution centers. Gateway computers has retail stores. Are these companies really so far ahead or are they demonstrating that in the long run, e-commerce will really be just another tool in carrying out the traditional business model—a clever way to establish a revenue stream before making heavy asset commitments?

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E-Commerce: What Lies Ahead?

by Lise J. Buyer

E-commerce--both the concept and the word--are popping up everywhere: on the front page of the local paper, on the radio, on TV. Perhaps the ultimate sign of mass adoption, e-commerce is now regularly heard in daily conversations with taxi drivers. The word is very popular at the moment, but what does it mean? E-commerce is missing from both the OED and Webster's dictionary.

Left to our own devices, let's define the term this way: E-commerce describes in general transactions completed on-line. Sooner or later, the e-commerce arena will encompass not only most domestic commerce but the bulk of the world's commercial activity as well. So e-commerce companies are those that, like Amazon, offer goods or services for sale on-line; like pcOrder.com or Commerce One, sell infrastructure technologies that enable others to sell on-line; or like eBay, simply create marketplaces where third parties can buy and sell with one another. They are companies racing to leverage the power of this new communications link between individuals and businesses, and to bring sweeping changes to the way business is conducted.

It's hard to make predictions about where these companies will take us because we are at the very beginning of this business evolution. It is as if we have just invented the radio and are using it for ship-to-shore transmissions; we haven't yet figured out that it is also an entertainment device. Or we are at the point shortly after the television was invented, when Milton Berle stood with his microphone in front of a camera and performed his radio routines "live." It took time for other appropriate genres, such as the sitcom, docudrama and soap opera, to evolve. Today we have the Internet tiger by the tail. Although we suspect there is something very powerful out in front, we are still learning how to harness it to maximize our advantage.

Even so, we can make a few observations about what lies ahead, and offer some big picture thoughts on e-commerce and the changes it is enabling. In many ways, the leaders of this e-commerce revolution are not unlike the forty-niners, who raced 150 years ago towards an area near what is now Silicon Valley to mine gold. They are all lured by the promise of profit. What really unites these companies, though, are several common realizations: that the Internet will radically change communications as we know it; that customers will become increasingly savvy, and so empowered at the expense of institutions;
that this shift can be exploited in any industry; and that these changes mean opportunities.

**Many-to-Many Communication**

The Internet--this new, increasingly ubiquitous technology, will forever change the economic landscape in large part because it heralds a major shift in communications: It provides the first "many-to-many" link. Every business hoping to thrive in the next millennium needs to recognize that the Internet is, at the very least, a critical business tool, which can and will enable companies to reach more customers and do so more efficiently and more effectively than ever before.

Once upon a time, only one-to-one communication existed. Individuals could converse with each other but had no way to record or distribute their ideas to people outside the conversation. That changed with the advent of one-to-some communication, enabled by the development of written languages. Once we could write, we could document our ideas for others to learn and teach, making a place in the world for organized education. And when Aldus Manutius (1450-1515) improved upon Gutenberg's printing press by inventing multiple movable typefaces, we could produce many copies of numerous literary works in multiple languages for a diverse group of readers. For the first time, education was no longer just for monks; the common man could access stored knowledge bases and academic learning.

The world changed profoundly again with the invention of broadcast technology--which made possible one-to-many communication. The need to live in clusters became much less critical because information could be transmitted almost instantly to remote locations. Thanks to broadcast, workers could spread out from the cities. Noncontiguous communities and countries could share information on a practically real-time basis.

Now the Internet has brought us one more leap forward, thanks to many-to-many communication. University professors and high-school students have access to the same on-line bulletin boards for posting messages, ideas and opinions. It is far too early to know what the ultimate outcome of this new communication link will be, but we are certain that the businesses where we work, the services we use and the entertainment we seek will all change profoundly in the coming years.

Many-to-many communication means that individuals have access to real-time data from numerous information sources over the Internet. As a result, people can get better information about products, services and competitors than ever before. A well-known dictate in retail and real estate is that only three things matter: location, location and location. Not anymore. Thanks to the Internet, consumers need not pay a premium to avoid heavy traffic, or enjoy the convenience of shopping in a centrally located mall. On the Internet, shoppers make decisions based solely on the right combination of service, price and selection.

If "knowledge is power," then this improved access to it will likely catalyze a
significant sociological and political shift: Individuals will be increasingly empowered at the expense of traditional institutions. If you take away only one thought about the power of the Internet, this one should be it--because this power shift changes everything. Need proof? Ask the account reps at the large brokerage houses that have lost business to the on-line trading companies. Ask your local auto dealer, who has lost pricing flexibility thanks to shoppers armed with comparative bids. Ask the shopkeeper, who specializes in commodity items like books or toys. Ask the representatives from Congress, who are bombarded with email on the burning issue of the moment. The Internet is giving the individual a much louder voice.

And there are opportunities to exploit this change in every industry and political arena. Only the laws of nature will be unaffected. Some industries are racing to embrace the Net, while others remain in denial. But just as virtually no business was left unchanged by mass adoption of the telephone, there will be none beyond the Internet's reach. Regulation and other government restrictions may well slow the rate of change for some, but eventually the way most products are bought, distributed and sold will change.

Consider software, now purchased in a box. By way of the Internet, it will ultimately be a subscription service. Autos, once purchased from dealer inventory, will be "designed" by the buyer and built to spec. Music will no longer be sold as an album on preconfigured disks; customers will assemble their own collections on-line. And even worldwide currency structures and payment mechanisms will likely change as the Internet speeds the development of a truly global economy.

All of this change equals opportunities for business. Thousands of small Internet ventures spring up every week in Silicon Valley, alley and gulch, on the silicon prairie, along the digital coast, and for lack of a better term, somewhere out there in the digital hinterlands. Some entrepreneurs have winning ideas. Some don't. But just as the lure of easy money brought thousands of formerly more sensible, rational individuals racing into the hills of eastern California 150 years ago, the stories of rapidly "earned" Internet millions work are drawing the talented and optimistic of today.

The Internet as a Tool

One of the questions well worth asking is why, given the laws of inertia, will businesses embrace the Net? What types of businesses should thrive in an on-line environment? First are businesses that will provide real time data to people who previously didn't have access to that information. Equally promising are businesses that will bring services to customers whom they could not economically serve before (e.g., payroll, health plan administration and other services for very small businesses).

Other businesses that should excel are existing ones that recognize the Internet is not a new business but rather a new tool--which they can use to reach more customers more effectively and efficiently. Examples of such businesses are Intuit, Charles Schwab, Dell and Gateway, which all realize that they can use the Internet to increase market share while strengthening the P&L. Smart
advertisers too--like Fox and Ford Motor company--have discovered that the Internet can serve as a customer polling device. Ford has agreed to swap advertising dollars for access to surveys of the iVillage customer base. Never before has Ford had such an opportunity to solicit customer suggestions and receive immediate feedback.

And for nearly all businesses, e-commerce offers some advantages over "the old way." For starters, most Internet companies require smaller capital outlays as compared to those in the physical world. Unlike traditional retailers that must open and staff a real store in each geographic area of interest, Amazon was able to reach a worldwide audience instantaneously when it came on-line. The ability to scale with speed--and without the expense of buildings, leasehold improvements, fixtures, shelves or store personnel--is a tremendous economic advantage.

Other benefits for on-line players are reduced inventory requirements and instant feedback loops. On-line retailers, like CDNow or Beyond.com, sell millions of dollars of merchandise without incurring inventory risk. These companies are storefronts without store backs, benefiting from the double bonus of reduced risk and reduced capital requirements. And whereas traditional merchants must wait a considerable amount of time before they get customer feedback on a new product, e-commerce companies get this feedback instantaneously; they can then adjust their product, store or service accordingly on the fly.

**Vanishing Inefficiencies**

Thanks to e-commerce, marketplace inefficiencies are going out of style. Today local merchants in remote locations can set their own price for a given pair of Nikes for lack of competition. Not tomorrow. Although merchants delivering better services will always be able to charge a premium, those relying on market inefficiencies will soon note a rapid erosion of power. As knowledge and purchase options increase, marginal-pricing power will decrease for services, commodities and luxury goods alike.

The opportunities and the business models for these companies are still developing, and will likely remain in flux for some time. The issue is potentially quite complicated, in part because many leaders of this new economy--often engineers--have different motivations from the tycoons of the past. People outside Silicon Valley laugh when wealthy entrepreneurs proclaim "it's not about the money." Outsiders nod politely, then point to the plethora of sports cars and mansions in the region. No question, many of these engineers and managers have found the good life. Yet for many, it really isn't about the money; it's about the challenge. Those who have already struck gold move onto a new mission. E-commerce is a world of serial entrepreneurs, who build new businesses in which the technology is key and the economics are secondary.

The emergence of e-commerce creates tremendous opportunity for those able to exploit it. At the same time it presents immense risk for those who fail to grasp its significance. Businesses that hope to thrive in the new millennium need to fundamentally restructure operations to keep pace with emerging competitors, who are unfettered by conventions left over from the unconnected economy.
Carpe diem.

The Author

LISE BUYER joined CSFB Technology Group as Director and Senior Equity Analyst focusing on companies in the Internet and new media industries. Before joining CSFB, she was the Director and Senior Equity Analyst at DMG Technology Group. Prior to DMG, Ms. Buyer was a Vice President, Equity Analyst and Portfolio Manager for T. Rowe Price Associates, a $130-billion mutual fund complex. Prior to that, she spent several years on Wall Street following both the technology and entertainment industries for Prudential Securities. A frequent speaker and guest columnist, Ms. Buyer has a B.A. from Wellesley College and a M.B.A. in Finance and Quantitative Analysis from Vanderbilt University's Owen School. She has also earned the Chartered Financial Analyst (CPA) accreditation.