



## A Look Towards a Global Internet Economy



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Tom Pigott is President, Chief Executive Officer and founder of Soma.com. Soma, a privately funded company based in Seattle, is a provider of high quality prescription medications, OTC products, vitamins, herbal and alternative medicines using Internet technology and available overnight delivery. His objective is to make Soma.com pre-eminent amongst Internet pharmacies, devoted to improving the healthcare of all Soma.com patients while helping to reduce overall healthcare costs in America. Mr Pigott spent several years overseas with postings in Japan, China and Brazil. He worked for both Nextel and Caterpillar, assisting in the development of high-tech systems and infrastructures. While overseas, he used the Internet for worldwide communications and came to recognise the potential of the World Wide Web for e-commerce applications. Mr Pigott is a graduate of Stanford University.

### A New Economy, a New Way to Play

Nothing yet seen on this planet truly compares to the potential power and usefulness of the Internet. Perhaps it is even appropriate to suggest that the Internet will prove to be the single most successful business and communication tool ever produced. What other tool has been as influential within the first 25 years of its existence? As the President and Chief Executive Officer of the Internet Society, Donald M Heath, has observed<sup>1</sup>, in little more than two and a half decades the Internet has:

- demonstrated that it can be a powerful force for democracy – a social revolutionising force;
- captured the imagination of business, industry and finance, of publishing, entertainment, religion – and virtually all enterprises that can influence our lives;
- broken down barriers to learning, to education, to universal, ubiquitous and instantaneous communications and thus to mutual understanding and acceptance;
- opened the eyes of many to a vision for a brighter future;
- awakened in many a spirit of hope, and fuelled the energy of innovation; and
- also awakened governments, regulators, politicians, intelligence and law enforcing agencies.

For today's businesses the Internet presents an interesting oxymoron. While opportunities abound

and entrepreneurs are becoming hundred-millionaires, the economic, societal and technological foundations of the "Old Economy" are challenged on a daily basis. In essence, a revolution is taking place. And, like all revolutions, when it ends, the landscape will look significantly different. The business community's "Ancient Regime" will be ousted and the new breed of entrepreneurs will develop new societal models for business, economics and government. In fact, the process has already begun. These new entrepreneurs, as Michael Wolff observes in *The Industry Standard*, "have created an entirely new logic that supports the inevitability of the coming Internet Jerusalem."<sup>2</sup> Terms such as "Profit" are relegated to lesser economic importance when compared with the concept of valuation. Like all revolutionary credos, the internet economy is frightening to most people who have yet to be converted.

### If all Nations are Created Equal, why is America Online Online Everywhere?

By its very nature, the Internet is the quintessential international medium. The Internet is much more than a worldwide network of computers: it is a network of people using a series of connected machines. It encourages the opening up of a space in which the traditional boundaries between the global and local are blurred and potentially erased. In its ideal state, the Internet is an open system in which representations and ideas originating in different cultures can be executed in diversity<sup>3</sup>.

At least this is what many prophets of the new economy would like to believe. Despite the passionate fervour heralding globalisation, the

1. Donald M Heath, "The Globalization of the Internet", 4 August 1998, posted at [www.abctelecon.com/magazine/17\\_6\\_articles/globalization.htm](http://www.abctelecon.com/magazine/17_6_articles/globalization.htm).  
 2. Michael Wolff, "The Shape of Things to Come," *The Industry Standard*, 23 April 1999.  
 3. Erik Chia-Yi Lee, "Cultural Recognition and the Internet," *National Taiwan University, Taiwan, presented at INET'98*.

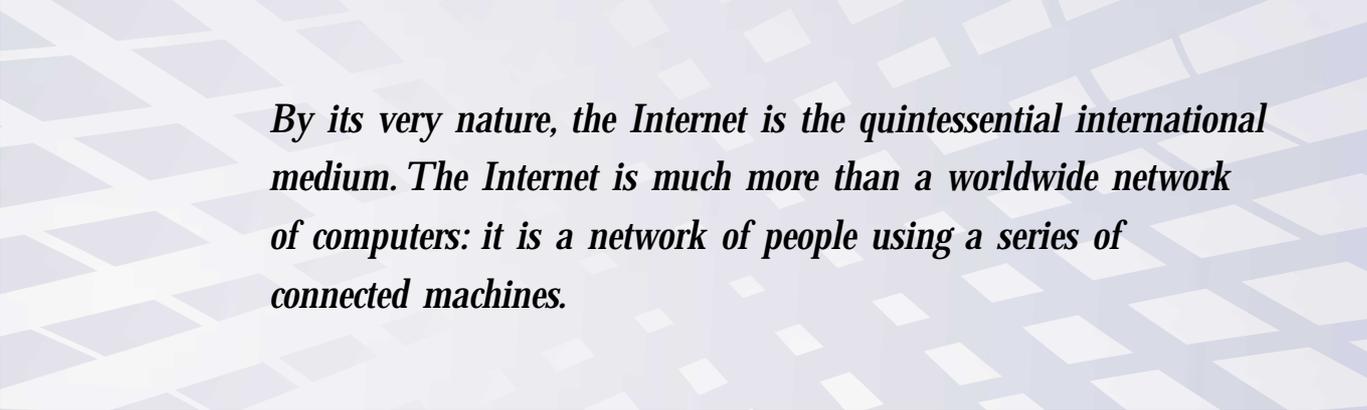
overwhelming majority of the Internet's economic activity is currently in the US. About three-quarters of all money spent online by Latin American users in 1998 went outside of the region, primarily to US-based companies.<sup>4</sup> Rather than empowering "the local" to establish businesses in cyberspace, globalisation on the Internet appears to be synonymous with standardisation and normalisation. As a medium for business, the Internet remains a party hosted by American companies and attended by American customers. The Asian financial crisis that began in 1997, the political chaos and economic meltdown in Russia, war in the Balkans and nuclear tensions in the Indian subcontinent are all situations which previously should have impacted, but no longer do impact, the economic growth surge and market euphoria of the US. The current development of the Internet economy reflects a substantial lack of reciprocity between the US economy and the rest of the world.

The inability of less developed nations to succeed on the Internet is exacerbated by the unequal technological advancement among different parts of the globe and a stifling degree of regulation. State-run telephone monopolies, lack of single languages across borders, prohibitively expensive Internet access and under-developed telecoms infrastructure are just a few of the obstacles which need to be overcome. There is an interesting

language in both Internet communications and web-based contents.<sup>5</sup> The unequal distribution of Internet resources means that countries that are not able to get connected on their own are dependent on other countries to be connected.

At the same time, there is no doubt that the Internet is spreading out to an international level and there are many signs indicating that it will continue to gain momentum. Europe is approximately a year or two behind the US, and the Internet service providers have already established the foundation in Latin America, which industry analysts anticipate will literally explode in the coming years. In 1997, US\$20 million was spent on online advertising in Latin America, 1% of the total amount spent worldwide. By 2003, Forrester Research anticipates that Latin American ad sales will reach 4% of the global total, or US\$645 million.

The potential for e-commerce companies to thrive outside of the US is truly extraordinary. Currently, international e-commerce expansion by US-based companies is hindered by strong language and nationality barriers, as well as expensive and sometimes unreliable shipping. An exciting opportunity presents itself to local Internet retailers if they move now. Boston Consulting Group predicts that Latin American online vendors will gain a stronger presence this year by capturing half of overall online purchases.



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parallel here to the necessary constraints put on US-based Internet health sites which is also highly regulated at both the state and federal level. According to one survey, the US and Europe overwhelmingly predominate the electronic sphere by holding around 87% of the world's total hosts. About 75% of all hosts now in existence are speaking English or assume English as the standard

The 1998 Latin American e-commerce market was estimated at US\$170 million. This year, International Data Corporation predicts a 175% increase in regional spending, and projects that total online spending in Latin America will soar to US\$8 billion in five years, driven by business-to-business spending. Furthermore, a survey of StarMedia's Latin American users shows that almost 30% have purchased online.<sup>6</sup> With the

4. Stacy Lawrence, "Latin America," Iconocast, posted on August 11, 1999 07:15 AM PDT.

5. Erik Chia-Yi Lee, "Cultural Recognition and the Internet," National Taiwan University, Taiwan, presented at INET'98.

6. Statistics cited in: Stacy Lawrence, "Latin America," Iconocast, posted on August 11, 1999 07:15 AM PDT.

international e-commerce potential primed, can the newer players learn from earlier mistakes?

**We can't all be Amazon.com, and we shouldn't want to be either!**

A company, regardless of where it is located, can only outperform its rivals if it can establish a service unique from its competitors. The most compelling point of difference trumpeted by the Internet pure-plays is their ability to significantly cut costs by eliminating the overhead costs associated with traditional "brick and mortar" businesses. However, it is important to know that cost cutting alone does not lead to sustainable competitive advantage or even profitability.

Cost cutting and operational efficiency are necessary to be competitive, but not enough in and of themselves to be successful on or off the Net. Business strategist Michael Porter suggests that there are two reasons for this.<sup>7</sup> Firstly, cost cutting does not lead a competitive advantage because it raises the stakes for all of the players. Although cost competition produces an improvement in operational effectiveness, it actually leads to relative improvement for no one. Entire industry sectors can become unprofitable.

Secondly, cost-cutting leads to competitive convergence. The more companies use the same methods, the more they look alike and the more generic their services become. This is very true on the Internet. As sites resort to content sharing and marketing agreements in order to enhance their services inexpensively, it becomes increasingly difficult to differentiate sites from one another. Studies have proven that, when consumers are unable to see the company's logo, they are unable to even identify which site they are on.

**If you build it will they come, and if they do, will they stay?**

According to Forrester Research Inc., visitors to online "communities", such as iVillage Inc. or America Online Inc., tend to devote at least half an hour a day to their favourite sites. However, converting the consumer's natural desire to "commune" into sales has proven difficult. Spending large sums of money on the latest

conferencing software will not transform an e-commerce website into a bustling community. As *Upside* columnist David Futrelle observes, "Money won't fill chat rooms with virtual citizens happily discussing the joys of this or that car, potato chip or potted meat food product."<sup>8</sup>

This does not mean that commerce and community are incompatible. Building a community is an extremely important part of building a successful commerce site and can be a strong point of differentiation for local eTailors competing against foreign competition. Local eTailors have the ability to offer its consumers a culturally specific community that would be difficult for foreign competitors to achieve. The key is to develop the necessary transactional content, and not create content for content's sake. Content that does not relate to, or drive, sales will only dilute the message of the site which is: "buy here now!" At CVS.com, we offer useful and thought-provoking content, all of which is designed to aid the consumer in making informed decisions about their health, allowing them to purchase the appropriate products to ensure their well-being.

**Integrating the Best of Both Worlds**

According to New York City-based research firm Cyber Dialogue, 58% of those who shopped online went on to complete their purchases at an offline store during last year's fourth quarter.<sup>9</sup> Is this the death-knell for Internet pure-plays? This recently identified, although not new, connection between commerce online and offline is a development in the retailing industry that most had not anticipated and few adequately addressed.

At CVS.com, we identified the potential benefits of combining the best of the off line or "old-world" with the innovation of the "new-world." We have set about integrating everything that is superior about e-commerce with the traditional high-end services and distribution. This "new" strategy was recently coined by Charles Schwab co-CEO David Pottruck, as "clicks and mortar". Very catchy and absolutely true, the most successful businesses of the new economy will combine the power of the Internet with the knowledge, resources and ability to operate effectively in the offline world. ■

7. As discussed in: Gerardo R Ungson and John D Trudel, *Engines of Prosperity: Templates for the Information Age*, Imperial College Press: London, 1998.

8. David Futrelle, "Community Missed", *Upside*, 2 August 1998.

9. Cited in: Penelope Patsuris "21st Century Coupon", *Forbes Digital Tool*, 30 July 1999.