

E-Business Strategies and Internet Business Models:

How the Internet Adds Value

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The Internet continues to grow and evolve as a vital resource with which companies can upgrade their capabilities and grow their businesses. Shop.org and Forrester Research predict that, at its present growth rate, on-line retail sales in the United States will top the \$100 billion mark in 2004 which represents 4.5 percent of total retail sales. Business-to-business (B2B) e-commerce is expected to grow worldwide to \$4.3 trillion by 2005 according to International Data Corp (IDC). The phenomenal success of young companies such as eBay, Google, and Amazon are also indicative of the Internet's potential.

The impact of the information technology revolution, however, goes beyond the Internet. At a more basic level, it is the shift from analog to digital technologies that is responsible for so many new information technology (IT) capabilities. Analog was once the primary technology for conveying information such as music recordings, voice communications, and television signals. Many technologies have made the switch from analog to digital—phones, photographs, television signals, and even books—and the trend suggests digitization is here to stay. As a result, digital technology capabilities which, in essence, make the Internet possible, are altering the way business is conducted. According to digital economy visionary Don Tapscott:

The Net is much more than just another technology development;

the Net represents something qualitatively new—an unprecedented, powerful, universal communications medium. Far surpassing radio and television, this medium is digital, infinitely richer, and interactive ... Mobile computing devices, broadband access, wireless networks, and computing power embedded in everything from refrigerators to automobiles are converging into a global network that will enable people to use the Net just about anywhere and anytime.

These technology-driven initiatives—the Internet, wireless communications, and other digital technologies—are having a significant impact on the economy. They have done so by changing the ways businesses interact with each other and with consumers. This has not only created an environment in which businesses must perform at a higher level—faster, cheaper, smarter—but also it has created many new business opportunities.

Even so, many firms are still struggling with the basic issue of how to use the Internet and digital technologies for their best advantage. Despite the visible and noteworthy successes such as eBay and Google, other Internet companies continue to struggle including “here-to-stay” giants such as Time Warner. The weak economy is partially to blame for faltering Internet businesses. However, a

more fundamental reason is that companies are still not clear how the Internet adds value.

In this article we look at how companies are leveraging the unique features of digital technology to create competitive advantages. Two aspects of this approach stand out. First, there are several strategies that Internet-based businesses can use to improve their value propositions. These include four Internet-specific activities that are providing firms with new capabilities—search, evaluation, problem-solving and transaction. These value-adding activities are enhanced further by managing three different types of Internet content—customer feedback, expertise, and entertainment programming. Second, these value-adding strategies are best understood in the context of business models that are specific to the Internet environment. Thus, we will consider seven Internet business models that have emerged and proven successful, and outline how value-adding activities and content are best used in the context of each of the Internet business models.

INTERNET ACTIVITIES THAT ADD VALUE

In his article, “Strategy and the Internet,” Michael Porter has emphasized that Internet technology becomes strategically significant only when its practical application creates new value. How are firms using the Internet to add value? By allowing companies to

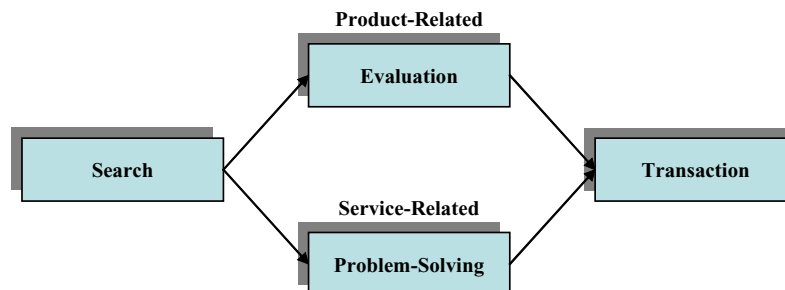
conduct business on-line and use digital technologies to streamline operations, the Internet is helping them develop new value propositions. Fig. 1 illustrates four related value-adding activities that are being revolutionized by the Internet—search, evaluation, problem-solving, and transaction. In this section, we address how companies can use these capabilities to add value and create competitive advantages.

Search Activities

Search refers to the process of gathering information and identifying purchase options. The Internet has enhanced both the speed of information gathering and the breadth of information that can be accessed. This enhanced search capability is one of the key reasons the Internet has lowered switching cost—by decreasing the cost of search. These efficiency gains have greatly benefited buyers. Suppliers also have benefited. Small suppliers that had difficulty getting noticed can more easily be found. Large suppliers can publish thousands of pages of information for a fraction of the cost that hard-copy catalogs once required. Additionally, on-line search engines have accelerated the search process to incredible speeds.

Consider the example of Google, a search engine developed as a project by two graduate students, which became the number-one search service in just four years. Why? Because it is capable of incredible

FIGURE 1 INTERNET ACTIVITIES THAT ADD VALUE



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