# Digital Interactive Channel Systems and Portals



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## INTRODUCTION

Web portals continue to grow as a force that could shift the balance of power between buyers and sellers and, therefore, could alter the structure of channel systems in many industries. In late 2005, the increase in the importance of portals appears to be reflected in their market capitalization, exceeding that of more traditional media and communications companies (see Figure 1).

Today, the Internet provides access to a vast data repository. Information on product pricing and quality that used to take hours to unearth can now be accessed in seconds with a click of a mouse. However, despite the ease of data access, one issue remains: how to find that piece of relevant information within all the data. Digital technology has reduced the cost of content creation, which has increased the amount of content or data available (e.g., replacing the typewriter with word processors and desktop publishing). Together with cheap digital distribution via the Internet and Web, much of this data is now available online. What remains is the challenge of finding relevant and reliable information. This issue is being addressed by one of the dominant forces in the online arena, the Web portal.

## EVOLUTION OF PORTALS

Traditionally, a portal has been viewed in a physical sense, as a door or entrance (Merriam-Webster, 2005). With the proliferation of the Internet and electronic media, the term "Web portal" came into existence as a Web site that "provides a starting point or gateway to other resources on the Internet or an intranet" (Wikipedia, 2005). The roots of Web portals—or navigational service providers, a term initially used in the 1990s—can be traced back to the proprietary online services business of the 1980s, which was dominated by three companies: America Online (AOL), CompuServe, and Prodigy (a joint venture between IBM and Sears; see Figure 2). Each online service provider built its own proprietary client/server system to provide the service. A user had to install a modem and a provider's client software to be able to dial into the local phone network and then to log onto the provider's remote server system. The service lineup included a choice of communication (e-mail, chat), information (news), entertainment, and transaction services (home shopping). The success of these services, and AOL in particular, coincided with the emergence of Internet and Web standards in the early 1990s (TCP/IP and http, html, and URL, respectively). These standards are open protocols, and their use eventually triggered a chain reaction leading to a disruption in the marketplace. This phenomenon could be observed in the mid 1990s, when new companies such as Yahoo! entered the market and many old online service providers disappeared (see Figure 2). The ultimate trigger of change was different economics: First, standards are cheaper than proprietary solutions. Second, they also introduce an interface between two systems, essentially splitting on old system into two components. As IT is used to automate business processes, an IT standard can also allow for the separation of a business process into two segments. In other words, the introduction of a standard presents a company with a choice: operating both segments or focusing or specializing in only one part of the old business. Economic theory suggests that specialized operations enjoy production cost advantages and companies tend to specialize (Malone, Yates, & Benjamin, 1987). An example of how open standards have led to specialization and the creation of a rich business ecosystem of competing and complementary vendors can be seen in the evolution of computing from vertically integrated mainframes to component-based personal computers (PCs). The introduction of a common set of interface specifications allowed a break up of the computer into hardware and software components, with software being further divided into operating system and applications (Rappaport & Halevi, 1992). With the success of open standards on the Internet, the functions of the old online service providers were broken out into specialized components, which created rich opportunities for new entrants (navigation/search, programming and content channels, and Internet access; see Figure 2).

While AOL dominated the industry throughout the 1990s, it has since lost power to "new entrants" like Google, MSN, and Yahoo! (*The Economist*, 2005a). MSN is the most similar to AOL, and offers content and search functionality on its

*Figure 1. Market capitalization of telecom and media companies (Source: WSJ.com)*

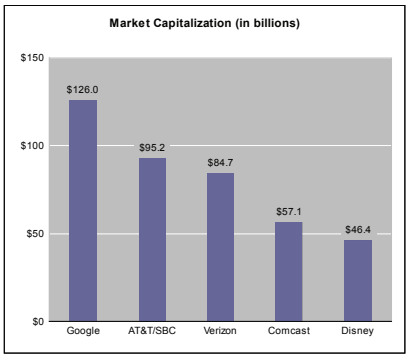
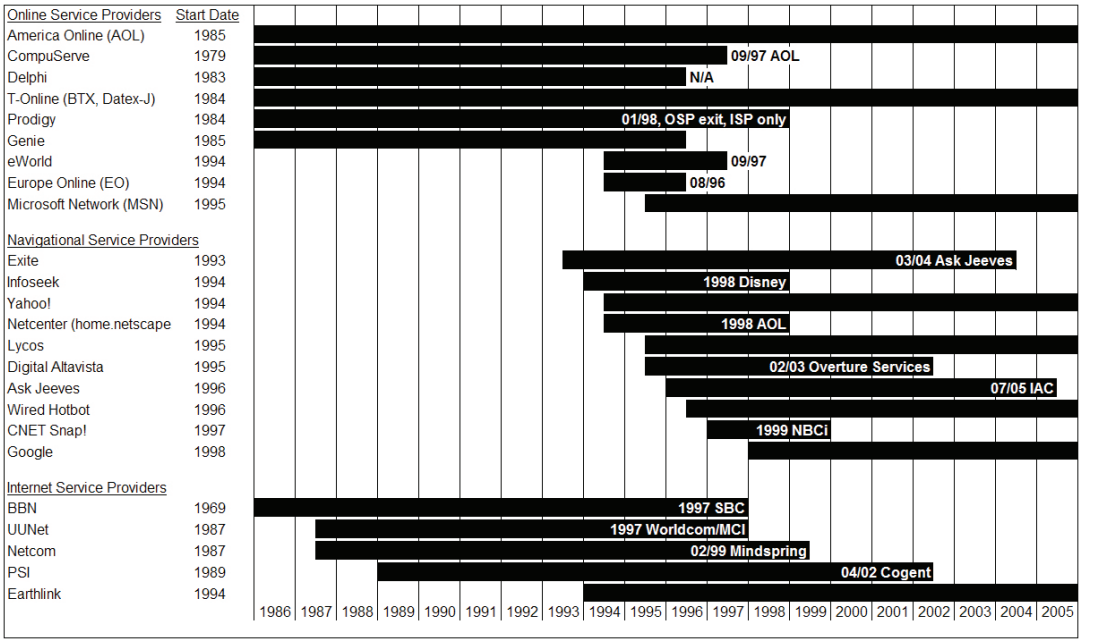



*Figure 2 . Evolution of portals (Based on Schlueter Langdon, 1999)*




Web site. Yahoo! focuses on categorizing Internet data into directories and enhances the user experience through page customization with its "My Yahoo!" service. As a result, Yahoo! leads the market with number of unique site visitors (*eMarketer*, 2005). On the other end of the spectrum, Google has been focused on returning the most accurate results for a given search query, and as a result leads in the share of searches performed online. Lately, additional features developed by the company have increased the site's functionality beyond the core focus on search. Google's recent expansion of their partnership with AOL (Wall Street Journal, 2005) continues the consolidation process. In addition, as the portals' search technology continues to develop in both power and sophistication, their reach has begun to penetrate ad markets that were previously the territory of large print publications serving specific geographical locations and communities of interest (*The Economist*, 2005b). Advertisers are attracted to portals and search engines because of their ability to deliver more targeted ads. Portals have also begun to emphasize enriching user profiles (My Yahoo!), which could allow for even more narrowly targeted ads. Furthermore, there is greater accountability online than off-line: click-throughs and, therefore, ad performance, can be tracked and billing can be performance-based, which increases a seller's return on marketing investments. As advertising dollars continue to migrate from the print to media, a key question emerges: What approach to Web portals will create the richest and most relevant customer profiles for advertisers, a "package of services" similar to what Yahoo! offered in 2005, or a "functional specialist" similar to Google's 2005 offering?