Seaboard Stock Exchange's Emerging E-Commerce Initiative

Linda V. Knight and Theresa A. Steinbach
DePaul University, USA

Diane M. Graf
Northern Illinois University, USA

EXECUTIVE SUMMARY

While Seaboard Stock Exchange remains one of the top stock exchanges in the United States, its relative position in the world is slipping. E-commerce is threatening the organization by accelerating the rate of disintermediation and the entrance of new competitors into Seaboard's market. Against this backdrop, Seaboard's e-commerce initiative has emerged. Tension between control and experimentation surfaces as the association attempts to incorporate emerging technology while maintaining its traditional way of doing business. The organization struggles to merge new technology with existing IT strategy while internal entrepreneurs strive to shape a Web development methodology and define an appropriate role for standards and controls in an emerging technology environment.

BACKGROUND

Seaboard Stock Exchange is recognized worldwide as among the leading exchanges of its type in the United States in the year 2000. The exchange was founded in the mid-19th century by a group of eight businessmen meeting informally in a garden outside of Rock Island, New Hampshire, to buy and sell local stocks. For decades, Seaboard remained, in the words of one manager, "a sleepy little regional exchange," until the mid-1970s when it made a strategic decision to become a national exchange. Since that time, Seaboard has expanded to approximately 500 traders handling a wide variety of stock and bond products. The exchange continues its heritage of face-to-face trading in an open arena to this day. Traders meet on an open floor and use hand signals to convey the quantity of a particular stock or bond that they would like to buy or sell. Bids to buy and offers to sell are made by open outcry. When the highest bid meets the lowest offer, the two traders each write down the trade on cards that 'runners' carry off the floor to be keyed into a computer system.

Although Seaboard remains one of the top stock exchanges in the United States, its relative position in the world is slipping. As Exhibit 1 shows, trading volume, which had been relatively steady from the earliest days, took a major swing upward in the 1970s when Seaboard decided to "go national."

This dramatic growth continued until 1998. However, volume has been dropping for the last two years.

While the worldwide total stock trading market has been growing, Seaboard's relative market share has declined, as has the price of a seat on the Seaboard Stock Exchange. Declines in Seaboard's trading volume mean that its member/traders, who charge customers for each trade they execute, are earning less. This situation has triggered a drop in the price of a seat on the exchange. Declines in the price of a Seaboard Stock Exchange seat mean that when members decide to retire or cash out, they reap far fewer dollars than previously (Arvedlund, 2000). The price of a Seaboard seat has dropped from a record high of $905,000 in the late 1980s to $322,000 in late 2000. Seaboard's membership is concerned about these declines, and has recently moved to trim staff in order to cut costs. These cost cutting measures can be expected to increase cash flow for the organization when it comes to paying its bills to support the trading floor; however, they will not put dollars in the pockets of its owners, simply because of the way the exchange is structured.

As Exhibit 2 shows, the exchange's 500 members are active owners of the not-for-profit association. The members own their own seats, have trading rights on the exchange, and manage the organization through the system of committees shown in Exhibit 3. Members also elect the Board of Directors and President. Further, since they are present every trading day, they play an active role in the day-to-day operations of the organization.

The exchange employs a staff of about six hundred employees, one-third of whom are in the Information Technology department. The primary responsibility of all staff is to support the trading floor and keep it running smoothly. According to Vance Fernandez, Vice President of Information Technology, "Working at Seaboard means having five hundred bosses. Staff at all levels, including the President, will drop everything if a member calls with a request." For example, when a member decided that he wanted a statistical analysis of recent energy stock prices, Fernandez immediately reassigned two top people from his most critical project to work on the member's special request.

Members earn their incomes primarily from commissions on trades or occasionally from making wise trades for their private accounts. Since Seaboard is a not-for-profit association of its members, any exchange income beyond that needed to meet costs is banked for future expenses, rather than being paid out as dividends or profits to the member/owners. Profits that had been saved in prior years are now being depleted as Seaboard's annual income drops below that needed to maintain its fixed costs. Seaboard's current economic dilemma, and the increasing domestic and foreign competition,

Exhibit 1: Seaboard Stock Exchange Trading Volume