



## **Chapter II**

# **E-Business**

## **Concepts and Trends**

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### **Internet**

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The Internet is an extremely important new technology, and it is no surprise that it has received so much attention from entrepreneurs, executives, investors, and business observers. Caught up in the general fervor, many have assumed that the Internet changes everything, rendering all the old rules about companies and competition obsolete. According to Porter (2001), that may be a natural reaction, but it is a dangerous one. It has led many companies, dot-coms and incumbents alike, to make bad decisions — decisions that have eroded the attractiveness of their industries and undermined their own competitive advantage. The time has come to make a clearer view of the Internet.

Internet technology provides better opportunities for companies to establish distinctive strategic positioning than did previous generations of information technology. The Internet's greatest impact has been to enable the reconfiguration of existing industries that had been constrained by high costs for communicating, gathering information, or accomplishing transactions. For example, the Internet tends to dampen the bargaining power of channels to providing companies with new, more direct avenues to customers (Porter, 2001).

The Internet has many properties, but 10 of them stand out (Afuah & Tucci, 2003):

- *Mediating technology.* The Internet is a mediating technology that interconnects parties that are independent or want to be. The interconnection can be business-to-business (B2B), business-to-consumer (B2C), consumer-to-consumer (C2C), or consumer-to-business (C2B). It can also be within a firm or any other organization, in which case it is called an intranet.
- *Universality.* Universality of the Internet refers to the Internet's ability to both enlarge and shrink the world. It enlarges the world because anyone anywhere in the world can potentially make his or her products available to anyone anywhere else in the world. It shrinks the world in that distance is reduced on electronic highways.
- *Network externalities.* A technology or product exhibits network externalities when it becomes more valuable to users as more people take advantage of it. A classic example is the telephone, where the value for each subscriber increases with number of subscribers. The more people that are connected to a network within the Internet, the more valuable the network is.
- *Distribution channel.* The Internet acts as a distribution channel for products that are largely information bits, such as software, music, video, news, and tickets. There is a replacement effect if the Internet is used to serve the same customers serviced by the old distribution channel without bringing in new customers. There is an extension effect if the Internet is used by more people and for new services.
- *Time moderator.* The fifth property of the Internet is time moderation, or its ability to shrink and enlarge time. It shrinks time for customers who want information on products when regular stores are closed. It enlarges time when related work can be done at different points in time.
- *Information asymmetry shrinker.* An information asymmetry exists when one party to a transaction has information that another party does not — information that is important to the transaction. The Web reduces such information asymmetries, as the other party can find the same information on the Web.
- *Infinite virtual capacity.* Access to the Internet is perceived as unlimited; you do not have to wait on hold or in a long line. For example, virtual communities like chat houses have infinite capacity for members who can talk anytime of the day for as long as they want.
- *Low cost standard.* Firms could not exploit the properties of the Internet if they did not adopt it. For two reasons, adoption has been easy. First and most important, the Internet and the Web are standards open to everyone everywhere and are very easy to use. Second, the cost of the Internet is a lot lower than that of earlier means of electronic communications.
- *Creative destroyer.* These properties of the Internet have enabled it to usher in a wave of creative destruction in many industries. Newspapers, for example, offer their readers material on their web sites. The Internet is a low cost standard printing press of sorts and a distribution network with unlimited capacity that reaches more

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