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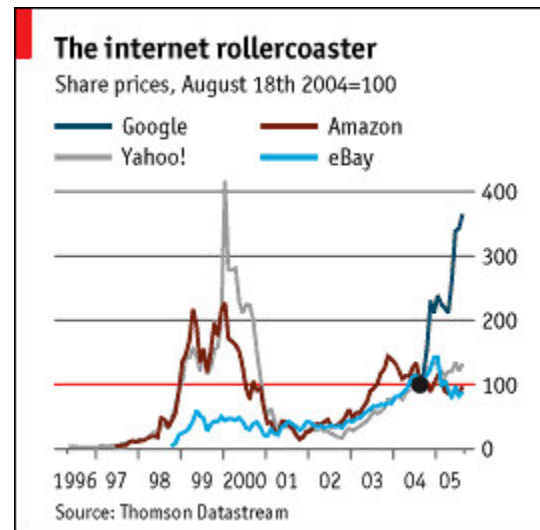
Internet businesses

Happy e-birthdays

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After ten years, what has been learnt about succeeding as an e-business?



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JULY 16th was a big day in Amazon's history. "Harry Potter and the Half-Blood Prince", the sixth in the series on schoolboy wizardry, was released with all-time record advance orders from the online store of 1.5m. On the same day, Amazon broadcast a live concert on its website to mark the day in 1995 when it "first opened its virtual doors for business". E-commerce is celebrating its tenth birthday this year. On the last weekend in June, online auctioneer eBay held a gala anniversary dinner in its home town of

San José. Yahoo!, a portal site, can also claim this year as its tenth. Only the search engine, Google, of the firms that in the internet decade have emerged as the big four of online business, is younger.

In their brief history, most online businesses have found profits harder to come by than publicity. Many early stars crumbled to dust (remember Webvan, pets.com and Boo.com?), and Amazon's string of losses (which touched \$1.4 billion in 2000) only turned to profits in 2003. Though quarterly results this week from eBay, Yahoo! and Google show their already healthy profits to be growing strongly, none of today's online successes feels able to rest on its laurels. Each is trying to move beyond its original source of revenue—selling books and an ever-growing list of other goods (Amazon); auctions (eBay); online advertising (Yahoo!); and “contextual” advertising (Google)—by adopting the successful strategies of its rivals.

Amazon is now hosting auctions, and courting eBay traders; meanwhile 30% of eBay's revenues now come from selling goods at fixed prices. Yahoo! has made so many recent changes to its business that it is being called “the new Google”, while Google is using its advertising formula to steer specialist buyers straight to specialist sellers—in effect disintermediating eBay.

Market disruption is a lot easier and a lot faster online than on the high street—although the big four demonstrate that there is some advantage in being a first mover online, just as there is offline. If nothing else, first movers tend to get embedded in the vernacular. “To Google” is now a verb, while the words “Friends Reunited”, Britain's most valuable online brand, often appear in newspaper headlines. Michael Murphy, Friends Reunited's boss, reckons that such free publicity has given a big boost to his growing firm.

All successful online sites have had to reinvent themselves continually, points out Andrew McAfee of Harvard Business School. Only that way have they been able to evade predatory newcomers. “The only survivors,” he says, “are the ones whose managers are able to move on.” Mr Murphy says he has “an open mind about the future”—not the sort of strategic planning that traditional boards like to hear.

Most online successes began, as the myth requires, with a couple of geeks in a garage and were then taken over, sooner or later, by professional managers. Geeks are not generally good at moving on from the ideas they give birth to. The notable exception is Amazon, where Jeff Bezos is still at the helm—although a recent article in the *New York Times* posed a question that many others have asked: “Has Amazon Outgrown its Founder?”

Raffi Amit of the Wharton School and Christoph Zott of Insead argue in a recent paper that the internet opened up “opportunities to be very creative in the design of the business model”. In e-commerce, they say, most value is created by business models—the way in which firms conduct their affairs with suppliers and partners, as well as customers—rather than (as is largely the case in the offline world) the products or services themselves. That may be why e-businesses have not replaced as many offline firms as was first predicted.

Two features of this new business environment have been surprisingly helpful in creating value: the sheer variety of products and services that can be offered online; and the extent to which online communities help each other for free.

Erik Brynjolfsson of MIT's Sloan School estimates that Amazon offers 57 times as many titles as a typical large bookstore stocks. This is typical of the so-called “long-tail” phenomenon: books that once lacked a market can be shifted at any time off Amazon's virtual shelves. Mr Brynjolfsson estimates that in 2000 the value of online sales of books that were not available at a typical

bookstore was \$578m. That suggests there is a lot of new business to be had, especially as there are long tails in many markets, from Clarisse Cliffe tea-cups to DVDs.

The success of Friends Reunited, which celebrated turning five on July 19th, highlights the value which can be created by online communities. The company has set up a system whereby people can interact with old schoolmates (for a fee) and spend money on a range of other things—dating, job-hunting or searching for ancestors. The value of such communities was shown this week when Rupert Murdoch's News Corporation agreed to pay \$580m for Intermix Media, an American firm built on the demand among young people for online "social networking".

Caroline Wiertz, of the City of London University's Cass Business School, has studied such online communities and says that the rewards for their apparently irrational behaviour come from the status and respect they gain from giving help online. Some offline firms have spotted this and been able to benefit from it. On a Hewlett-Packard customer-service site, for instance, visitors can award points for answers given to their problems by other users. Ms Wiertz says that 60% of the problems posted on the site are solved within two hours, and that 30% of call-centre queries have been diverted to the site. It costs \$7 to process an average query via a call centre; it costs 50 cents to process it online.

What might drive the next round of e-commerce business models? Mr Brynjolfsson says that two new technologies are already throwing up opportunities: mobile access to the internet and RFID tags, which enable the non-stop monitoring of the whereabouts of goods. Wharton's Mr Amit says that the old-fashioned offline world was one where producers said to customers: "I've made this; buy it from me at this price." In the online world, customers are saying, "I want this; sell it to me at this price." That is why these internet birthdays really are worth celebrating.

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