Debunking Myths About Internet Commerce

Ravi Kalakota
Xerox Assistant Professor of Information Systems and
William E. Simon Graduate School of Business Administration
University of Rochester
kalakota@uhura.cc.rochester.edu
http://commerce.ssb.rochester.edu/book.html

Ravi Kalakota is Xerox Assistant Professor of Information Systems and William E. Simon Graduate School of Business Administration, University of Rochester, and author of "Frontiers of Electronic Commerce" (Addison-Wesley, 1996).

Recently, MasterCard and Visa joined together to announce a technical standard for safeguarding credit card purchases made over the Internet. The new specification, called Secure Electronic Transactions (SET), represents the convergence of competing individual efforts between MasterCard/Netscape and Visa/Microsoft. This proclamation was meant to soothe consumer concerns about making purchases on the Internet. Will it achieve its stated objective of increasing on-line business? The jury will be out on this one.

It is time to debunk once and for all a powerful myth that is taking root about Internet commerce: that secure payment processing is what ultimately makes Internet commerce popular among consumers. Secure payment is only one aspect that risk-averse consumers are concerned about when they contemplate doing business on-line. Other key business issues that have major influence on Internet commerce include attractive value-laden content at a reasonable price, reduced consumer search cost, and a simplified buying (mercantile) process. I take the stand that understanding these business issues is far more important and crucial than the excessive attention devoted to secure payment schemes.

Attractive Value-Laden Content

Too many on-line vendors and organizations are focusing on sizzle over substance in the content they are providing. They are somehow unable to understand what constitutes attractive value-rich content. Attractive content is not about having flashy graphics, digital video or sophisticated 3-D graphics. Attractive content is about value and the ability to deliver value consistently to the loyal customer at a reasonable price.

What is value? Value differs from company to company. Take the case of Federal Express. FedEx has made tracking software accessible via the Web with the goal of providing value to the customer. The customer is free to track any package at any time, at his/her convenience. FedEx gave the customer something valuable: empowerment. This makes the customer feel like they're "in the drivers seat" and to some consumers that is valuable. An added benefit is that FedEx can actually save money by off-loading the pressure on their tracking centers.

Another example is Time Warner, which though its popular Web site provides value to customers through a diversity of content that is easily accessible, updated frequently, and elegantly. Time Warner has used the Internet to change its business model from that of a weekly publisher to a competitive (and fast-growing) daily.

On the other hand, how many times have you gone to a corporate Web site in search of information only to find fancy graphics and a few excerpts from their annual report. The probability is that you won't return to that site. Most
corporate sites are run by programmers who understand the technical details but have little appreciation for content usually a marketing function. Clearly, we need a cross-functional attempt to address the customer's need rather than developing "functional islands of electronic commerce".

The lack of value-oriented content creates customer churn, which is definitely a big problem in the on-line world. Customer churn implies that customers are not satisfied and are seeking alternatives. On-line service providers like America On-line see a lot of churn caused by customers dissatisfied by the huge bills they receive. Today's value-oriented consumers will unflinchingly abandon established brands and migrate towards new ones offering greater value. Anticipating consumer value migration and profiting from it is the way to go in on-line markets.

Consumers are not stupid and on-line firms need to realize this. If consumers don't see value in the on-line content being served up they will not bother returning to an on-line mall. Likewise, if consumers feel that they have gained something of value and are satisfied, they will return to the Web site. Firms need to listen to their customers to understand what content and what additional features would be of most value to them, and how much they are willing to pay, and then make attempts to provide that content at that price. This may sound simple. However, when I surf the Net, it's quite apparent that very few on-line firms have actually solicited customer input.

Reduced Consumer Search Cost

It is interesting that although the Web allows easy electronic publishing and searching through various search engines, the consumer search cost is actually going up. What does consumer search cost mean in an on-line environment? Today, potential buyers have to engage in a search of various Web sites or within a Web site to ascertain the attributes of competing products available on-line. Lowest price is not always the most important attribute Consumers are smart enough to factor in quality, customer service, brandname, performance and of course cost in their evaluation. Once a buyer has identified the product with the best ratio, she is in possession of "informational capital" that is valuable for making purchase decisions.

The search investment for consumers is costly both in terms of time spent on-line and access charges, and consumers will not search again voluntarily unless and until they have reason to believe that their "informational capital" has become obsolete due to new products or changes in the competitive environment. When a seller believes that the consumers' informational capital is stable for the long run, the seller will attempt to benefit by locking in the buyers of their product. One way of locking consumers is to provide incentives that dissuade consumers from undertaking costly new searches unnecessarily. It is unclear what on-line incentives are effective for ensuring shopper loyalty.

It is important to understand why people search. They do so for two reasons: (1) the wide variation of prices charged by different vendors for what is apparently the same service; (2) the persistence of price discrimination, evidenced by different fees being charged to different clients by the organization when there is no apparent difference in the cost of providing the service.

These characteristics of on-line markets are a consequence of two factors. First, consumers have difficulty judging quality of service before using the service (ex ante). Secondly, professional rules of conduct frequently preclude the provision of on-line pricing information to consumers which would be necessary to generate competitive prices. In other words, consumer search costs are high.

Firms can get away with price discrimination because there is enormous variation in the search ability of consumers. I have noticed that experienced searchers can find and compare products in a fraction of the time it takes someone with limited experience. This "capability" distribution will decrease as more evaluation services (e.g., Consumer Reports) enter the marketplace.

Reducing consumer search costs may intensify interbrand competition. Consumer search cost is by far one of the most important considerations that will influence Internet commerce. More research needs to be done in this area.
Buying (or Mercantile) process

The current buying (mercantile) process is quite chaotic and varies from vendor to vendor. An on-line buying process scenario would likely take place as follows:

Buyer and seller engage in a dialogue that identifies the product or service the buyer desires. The result is a price quote. This dialogue might be interactive using Web forms or even take place off-line via telephone.

The buyer then sends the seller the encrypted credit-card number, payment instructions, or digital cash (if this ever becomes a commercial reality). The seller gives his payment processor (e.g., VISA) information about the buyer, the product/service and the payment instructions and asks for a funds transfer.

The seller's payment processor first attempts to authenticate the buyer (is the buyer who he says he is). The payment processor identifies the buyer's payment scheme and sends a standardized message to the bank giving details of the transaction so the buyer's account is properly debited or charged.

The seller is notified of the completed financial transaction. The seller then dispatches the goods or, if the buyer is purchasing information, the seller provides a key to unlock the file.

At the end of the billing cycle, the buyer receives a list of transactions from his bank or some other financial institution. The buyer can then deny certain transactions or complain about overbilling. Suitable audit or customer service actions are then initiated depending on the payment scheme. The above process is quite similar to the way credit-card transactions are processed off-line.

While the process appears to be technically sound, it may not meet certain "hidden" criteria needed for successful business practice. For instance, take simplicity. Let's face facts: Typical customers such as Aunt Sarah and Uncle Billy are technophobes, and if they have to work around with browser configuration files and payment keys, they will abandon commerce on the Internet. This issue will have to be addressed with user interfaces that are intuitive and hide the complexity of the underlying technology.

Another key issue is transaction speed and reliability. This has not been addressed adequately. Payment schemes need to be sophisticated enough to happen in near-real time. Why? Studies have shown that most of us do not have the patience to wait 20 seconds while a request for a Web page is being processed by the server. Most on-line transactions will take some finite time to be completed. This is especially true during the day when the Internet slows down to a leisurely crawl. Throwing in a few layers of extra security and there is sure to be a long wait.

Consumers are bound to get worried if there is a longer wait than what they are used to with credit-card processing in a store. It is estimated that credit-card processing takes an average of 12-15 seconds for the round-trip (request for authorization, reply with confirmation). But, what is the threshold of pain (or right amount of time) that a consumer is willing to wait on-line before he hits the panic button? How does the bank or seller's payment server roll-back transactions in case the customer changes their mind moments after the transaction has been initiated? We have no research which have examined this important aspect of Internet commerce.

Obviously, the time to address these issues is now before Internet commerce gets to the situation that home banking faced in the mid- 1980s: High corporate expectations and luke-warm consumer interest.