



# **The Risks and Rewards of Electronic Commerce (Information technology expands business)**

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The "Economist" magazine notes that technological turning points are difficult to spot. The publication pointed out that at the turn of the century when Studebaker switched from making horse-drawn carriages to making cars, the move was not obvious because in the previous five years New Yorkers had bought 350,000 carriages and only 125 cars.

Now we are entering a new century, and the information age is about change and about achieving new impossibilities. This change will affect businesses. They need to understand it and, more importantly, take advantage of it.

Businesses of all sizes need to understand the role that telephones, computers, networks, and technology can play in creating new impossibilities. And if they can harness this potential, they will be the successful entrepreneurs and business persons who will bring new products to the market, increase consumers' choices, lower costs, and improve national economies.

Just consider for a moment the changes that have taken place in the telecom and information sectors in the last several decades. The global network of computers, telephones, and televisions has increased its information-carrying capacity a million times over. In 1960, a transatlantic telephone cable could carry only 138 conversations simultaneously. Today, a fiber-optic cable can carry 1.5 million conversations at one time. Today's laptop computers weigh as little as 1.85 pounds (0.83 kilograms) and are many times more powerful than the \$10 million mainframe computers of the mid-1970s. Twenty-five years ago there were only about 50,000 computers worldwide; today that number is estimated at 140 million. And no communications medium has ever grown as fast as the Internet, which has an estimated 50 million users worldwide.

Two key issues are emerging as increasing numbers of individuals and companies use electronic networks to engage in commerce: (1) the need for companies to focus on their value-added; and (2) the need to delineate the appropriate roles of the private sector and the government.

## **The Risks and Rewards for Businesses**

The explosive pace and unpredictable nature of the technological developments make any attempt to engage in electronic commerce a bit like betting on a long-shot in a horse race. Even industry leaders don't always make it to the winner's circle.

The Internet, Intranets, extranets, and other communications networks are lowering entry barriers to commerce, enabling both small and large firms as well as consumers to engage in and benefit from electronic commerce. Electronic commerce is already generating important sales and savings for businesses.

For example, the on-line bookseller Amazon.com's increasing share of the bookstore market (by offering discounts up to 40 percent) forced major bookstore chains like Barnes & Noble and Borders Books to go on-line. Federal Express delivery service saved as much as \$10,000 a day in 1996 by moving some of its customer service to its Web site. Dell Computer now sells \$1 million worth of PCs every day on the Web. General Electric buys \$1,000 million in materials

from suppliers on-line and saves money by streamlining the process and opening it up to more competition.

Keep in mind that it is not simply a matter of creating a Web site. Amazon.com is a success, now valued at \$500 million. Interestingly, a British businessman pursued the same idea at the same time -- but his company is only worth \$3 million today. Why the difference? Jeff Bezos, the American owner of Amazon.com, researched the industry and relocated to be near one of the world's biggest book warehouses. Mr. Bezos also raised \$11 million from venture capitalists at the outset and heavily marketed his business. And he learned how to market effectively worldwide -- Amazon.com sales outside the United States are 10 times the British company's sales outside of Britain.

Electronic commerce is not just for big corporations. In fact, it provides exciting possibilities for small companies and entrepreneurs to tap into markets around the world. Moreover, it enables the sharing of valuable information and resources. Recently, Women Inc. (a non-profit organization devoted to helping women business owners succeed) and AT&T announced a partnership that will greatly help women entrepreneurs and could serve as a model for other groups. AT&T has provided Women Inc. with a \$25,000 grant to develop and host a Web site that will give Women Inc. members data space for business transactions, space to sell their products and services, the opportunity to "ask the expert" business-related questions, and the ability to register for conferences. Through the Web site, members also have access to a host of services.

The Internet is causing a lot of businesses to rethink how they do business. Business owners and executives should ask themselves: "If the Internet, in its current state, had been around when the enterprise was founded, would you be running your business the way you are doing so today?" If the answer is no, why not change now? Can you develop a niche market? How can you compete effectively with off-line companies as well as other on-line companies?

## **Private Sector, Government Roles**

The Clinton administration believes that the private sector can and should develop many of the solutions to emerging legal, policy, and technical challenges with respect to electronic commerce, particularly activities on the Internet. When activities on the Internet raise new issues, the government should first turn to the private sector to see if a solution can be crafted without government action.

The Internet community has a demonstrated record of expanding the Internet, successfully managing its operation and growth, and developing policies and mechanisms to govern its use without government regulation.

Many of the solutions to emerging Internet-related concerns lie with technology, and in turning to the private sector we can take advantage of its entrepreneurial energy. The private sector has already demonstrated its ability to develop new technology tools, such as screening software to address concerns about children's access to adult material on the Net, as well as standards that would give individuals the ability to control the disclosure and use of their own personal profiles generated when using the Web.

The U.S. federal government does have a valuable, and at times critical, role to play with respect to the development of electronic commerce. The federal government should be engaged in:

- (1) promoting a market-driven environment;
- (2) creating a predictable legal environment governing electronic commerce transactions, and
- (3) building business and consumer awareness about externalities that undermine healthy markets.

Even as the government takes steps to fulfill this role, we must ensure that any government action is the minimal necessary to achieve goals and one that allows competition and innovation to flourish.

## **A Market-Driven Environment**

The federal government has a valuable role to play now to preserve the global environment in which a contract-based,

market-driven model of commerce can emerge. Increased commercial activity on the Internet makes it an increasingly attractive target for government regulation to address concerns about fraud, content, and competition, as seen by recent state and foreign government action. Consequently, the federal government has two distinct, but complementary, roles:

(1) U.S. leadership is needed to preserve the Internet as an unregulated, contract-based, market-driven environment internationally as well as interstate.

(2) In some cases concerted international, intergovernmental action will be needed to facilitate electronic commerce and protect consumers. In these cases, U.S. leadership is needed to promote a minimalist approach designed to ensure competition, prevent fraud, foster transparency, and facilitate dispute resolution.

The Clinton administration believes that government should minimize regulations and let technology blossom and grow. The administration's approach to the Internet is that, in general, our first instinct should be to refrain from regulation. No form of electronic media has grown as fast as the Internet, and the Net has grown precisely because it is not regulated.

We are very concerned that a number of nations have taken steps or are contemplating action to censor information received by their citizens via the Internet. We believe that freedom of speech applies in cyberspace and that laws censoring the information that flows over the Internet are both misguided and impractical, especially given the global nature of the Internet.

We strongly believe that the best way to fight misinformation is with more information. To quote actress Mae West: "Too much of a good thing is wonderful." Moreover, the best guarantee of democracy and stability are informed citizens.

Obviously, on certain issues such as pornography and children's access to adult material, the U.S. government is concerned. But even here, we are looking to industry to self-regulate and to develop technological tools that parents and Internet service providers, not the government, can use to filter out material inappropriate for children.

The good news is that the computer industry and the on-line service industry have been moving quickly and responsibly to develop new products and services to make the Internet "family-friendly." These technologies enable parents -- not governments -- to determine what is appropriate for their children.

The Internet and its products also are generating new competition for traditional telecommunications and media companies. The Clinton administration is concerned with recent attempts by other nations to ban or block telephone calls on the Internet to protect their state-owned phone companies.

#### A Predictable Legal Environment --

The U.S. government has an important role to play as facilitator and catalyst for electronic commerce. We need to examine whether existing governing standards should continue to apply and whether new ones are needed. The major issues include data security, intellectual property, privacy, and financial issues.

The United States recognizes that other nations are facing these same issues, yet often with a different historical and cultural perspective as well as different legal and regulatory frameworks. Given the global nature of the Internet and other networks, a consensus regarding governing standards needs to be developed on both national and international levels.