E-Commerce: atoms or bits?

Federal Express and Australia Post star at the federal government's "e-commerce" summit

When companies like Federal Express and Australia Post start talking about electronic commerce, you have to think they are on a suicide mission.

These guys move stuff. They own buildings, planes, trucks and all the things that some think will be dinosaurs in the "digital economy". They shift things from place to place at a time when place is not supposed to matter a toss because you can get anything and be anywhere at your desktop.

But "Fedex" and "Post" were two of the stars of the federal government's e-commerce summit in Canberra in April. Why?

Because e-commerce is a much more complicated creature than the radically simple vision of a converged bit-stream that carries within it everything of value in the information economy, a world where everything that happens, happens over the Internet.

Fedex worked out very early on that if retailers could convince customers not to go to shops but to sit at their computers and order stuff over the Internet, someone would have to deliver it. Just as the motor car, the sealed road, the freeway and the shopping mall made it possible for post-war individualist consumers to become their own delivery agents and thus put milkmen, bread vendors and mobile greengrocers out of business, the Internet might convince the time-poor of the late 20th century to leave the car at home. Decentralised transportation might once again be replaced by centralised transportation. Bewdy Fedex.

Post's business grows every year. People might send faxes and email and not letters like they used to, but businesses think it is worth sending them lots of glossy brochures through the mail. And Post has worked out that physical presence can still be a valuable thing. Lots of people want to pay bills in person. It saves the stamp, or the phone call and you don't need a credit card (to tempt you to delay payment) or a computer and modem. So Post now allows you to pay any of 230 bills at its offices. Lots of people also want to get physical banking services in places where there is a post office but no bank.

Indeed, physical presence is the biggest trump to one of the central competitive advantages claimed for e-commerce - instant gratification. E-commerce means you find what you want, point at it, type a credit card number, and it's yours as soon as Fedex or Australia Post can get it to you.

But how about this? Find what you want, pick it up, pay, and it's yours. It's called a shop. And Australia Post has got one in just about every town in the country.

But the Fedex and Post visions, smart as they are, face their threats. Food, clothes and washing machines might have to come in the Fedex truck. Even Nicholas Negroponte acknowledges that sweaters and Chinese food are not going to fit down your modem. But some stuff can - and more will be able to - be pumped down the cables and through the air without the need for any physical goods at all - computer software, movies, music, financial advice, education and many other services.

Shops are nice, but they are expensive to own in the High Streets where people notice them, and to keep open at the times when busy choice freaks decide they need something. And if you are going to give instant gratification to your customers you have to have the precise thing they want on your shelf.

Some of what is happening with e-commerce is only a recognition of this financial reality. If selling online is cheaper and prices can be lower, customers might buy that way regardless of whether they really prefer the retail experience they are getting.

The American online bookseller, amazon.com, quoted ad nauseam as the king of online commerce with $150 million in revenue in its second year, sells books cheaply. It also makes them easy to find. But it is not making any profits yet and lowering prices is hardly a novel strategy to win market share. As incumbent booksellers establish online presences, bringing with them brand awareness, customer loyalty and the option of a retail presence which delivers truly instant gratification (for the really time-poor who need a birthday present for the party this afternoon), the full complexity of the tastes and demands of the book-buying public are going to get a fairer competitive workout.

By then, amazon.com might not be getting quite so many hits. Particularly from terrified executives logging on in hotel rooms around the world after a day of intimidation by e-commerce consultants who have convinced them they won't have a business in the morning if they don't lead the revolution.

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Then we will discover whether amazon.com has built a new "paradigm" or just added another skill - a good website - to the necessary armoury of the good bookseller.

And, like Fedex and Post, it is no small paradox that the icon of e-commerce is a business - books - that the digital economy was supposed to have killed off by now.

It is also no small paradox that the middlemen, the people who are supposed to be put out of business by the direct contact between customers and manufacturers/service providers which is made so much simpler by the Internet, are some of the ones doing so nicely out of e-commerce.

"The Internet is going to make it very difficult for anybody in a middleman position to stay in business," says Frederick Smith, chairman, president and CEO of FDX Corporation, the parent company of one of the world's great middlemen, Federal Express.

Electronic commerce provides opportunities for new kinds of products and services, new markets (especially the potential of simplified access to interstate and overseas markets), scale economies (if the business can be grown), changed distribution arrangements, new relationships with customers and changed internal work practices, among many other things.

As most speakers at the e-commerce summit said, something big is happening.

But the smart businesses will not be those who decide in some abstract way to revolutionise their businesses from the top down because they went to a conference where everyone told them that e-commerce was the Next Big Thing.

They will be the ones who work out, while coping with labour relations, regulatory reforms, tax, budgets and everything else, what particular aspects of e-commerce are good for their business. Is there *really* a global market for their goods and services? How can a website help them find their customers? What sort of a website? How will a website complement and how might it substitute for existing distribution and marketing activities? Are we really in the business we thought we were in? Where is our competition going to come from?

The really smart ones, of course, will already have done it, and be doing it over and over, day by day. Doing business.

As Linda Nicholls, chair of Australia Post, says: "If you don't have an e-commerce strategy, I don't think you've got a business strategy."

An edited version of this article is appearing in the Australian Financial Review.

Jock Given

New CLC research: tort liability and telecommunications

When the first main power cable servicing Auckland's households and businesses gave out earlier this year, there was no immediate panic. There were three more, and the system was designed to handle outages.

When the fourth one failed and the inner city lights, lifts and everything else gave out, the city had a major crisis on its hands. It now has a lawyers' extravaganza as the arguments about who should wear the cost of damage suffered and profits lost get underway.

This is the kind of scenario that scares telecommunications companies and their customers, with communications services now so important to the operations of every commercial enterprise.

The CLC has undertaken a major piece of research entitled "Liability in Tort for Network and Service Failure". It explores:

- the likely consequences for liability under the law of torts where telecommunications networks and services fail; and
- possible policy responses to those consequences.

The research was undertaken in the context of the Australian Communications Authority's consideration of whether to exercise its power under Clause 46, Schedule 3 to the *Telecommunications Act 1997* to limit tort liability in relation to the supply of specified carriage services.

It was funded by AAPT, the Australian Telecommunications Users Group (ATUG), Gilbert and Tobin, Optus Communications, Telstra and Vodafone.

The report's primary authors were Jane Hogan, currently on secondment to the Centre from Freehill Hollingdale & Page, and Maura Bollinger, who previously worked in the US with the Federal Communications Commission in Washington DC and with Southern New England Telephone in Connecticut.

Copies are available from the Centre: (02) 9663 0551; (02) 9662 6839 (fax); or order on-line at http://www.comslaw.org.au