

C o m m e r c e N e t P r e s s

How to **INVEST** *in* **E-COMMERCE STOCKS**

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- ✓ The 4 commandments every e-commerce investor must know
 - ✓ Easy to understand overviews of the 5 e-commerce sectors
 - ✓ The 8 essential guidelines for investigating e-commerce stocks
 - ✓ Detailed analysis of dozens of e-commerce stocks

Bill Burnham
PIPER JAFFRAY, INC.

How to Invest in E-Commerce Stocks

Bill Burnham

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Preface

In the spirit of “you either do it right or you don’t do it at all,” this report is a long one. Don’t worry though, we recognize that very few readers will have the time or need to read this report from cover to cover.

For those truly pressed for time, we suggest reading the separate eight-page summary that we have produced in conjunction with this report and then returning to the full report once time permits or the need to develop a more in-depth perspective arises.

All readers should take note that *Chapter 2 is optional* and only intended for those who do not have a background in the fundamental security technologies that underlie Electronic Commerce (“EC”). Chapters 3–7 each address a separate “sector” of the EC industry in detail and are all laid out in a largely identical form comprised of 11 separate sections (see table on page xiv).

Although we have written each chapter to logically flow from one section to the next, *readers can pick-and-choose* amongst the sections depending on their knowledge and interest in the subject at hand.

Finally, *we have created an extensive index* at the back of the report that should allow readers to quickly find particular information that is of interest to them. Hopefully these measures will make the report readable and relevant to both EC experts and novices alike.

Description of the Standard Sections Found in Chapters 3–7

Section	Description
Structure	Provides basic background on the structure and operation of each sector of the EC industry. Readers with advanced knowledge may want to skip this section.
Sub-Sectors	Groups and details the different players in each particular EC sector.
Market Size	Provides current estimates of the size of the sector.
Drivers	Describes the specific drivers that are influencing the growth of the sector.
Potential	Estimates the future size of the sector and the amount of revenues that it is likely to generate.
Trends	Reviews the trends that are currently impacting the sector and discusses their potential affect. This section is the most topical part of each chapter.
Success Factors	Establishes the key success factors that will likely help determine whether or not individual firms succeed in the sector given the current trends.
New Opportunities	Explores a few of the new opportunities being created by the ongoing development of the sector.
Investment Considerations	Reviews the historical investment performance of companies focused on the sector and puts this performance into perspective.
Risks	Delineates the risks that could have a substantial impact on the future growth prospects of companies in the sector.
Conclusion	Provides a very brief wrap up of the chapter.

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Contents

Preface xiii

1. The Electronic Commerce Industry	1
Introduction	1
Structure	3
Market Drivers	9
Investment Considerations	15
Market Characteristics	19
Risks	21
Conclusion	22
2. An Introduction to Electronic Commerce Security	23
Sidebar: Key Length	27
Sidebar: Public Key Systems: Take Your Pick	30
Risks	41
Conclusion	42
3. The Security Sector: Too Important for Its Own Good?	43
Sub-Sectors	64
Sidebar: SET: Setting the Stage for Secure Electronic Commerce	70
Market Size	75
Drivers	76

Market Potential	80
Trends	81
Success Factors	90
New Opportunities	91
Investment Considerations	92
Risks	95
Conclusion	96

4. Electronic Payments and the Death of “The Switch” 97

Introduction	97
Structure	97
Sidebar: Electronic Bill Payment	119
Sub-Sectors	124
Market Size	129
Drivers	130
Sidebar: Electronic Bill Presentment	132
Potential	136
Trends	140
Success Factors	145
New Opportunities	146
Investment Considerations	146
Risks	149
Conclusion	150

5. Financial Software and the Rise of the Integrator 151

Introduction	151
Structure	152
Sub-Sectors	164
Core Suppliers	165
Current Size	171
Drivers	172
Potential	175
Trends	178
Success Factors	189
New Opportunities	190
Sidebar: Integration	190
Investment Considerations	195
Risks	197
Conclusion	198

6. Business Commerce and the Rise of the Distributed Extraprise 199

Introduction	199
Structure	199
Sub-Sectors	214
Current Size	219
Drivers	221
Potential	224
Trends	228
Success Factors	232
New Opportunities	234
Investment Considerations	234
Risks	237
Conclusion	238

7. Commerce Content: Brands Battle Intelligent Agents 241

Introduction	241
Structure	241
Sub-Sectors	242
Market Size	258
Drivers	259
Potential	261
Trends	262
Success Factors	267
New Opportunities	268
Investment Considerations	269
Risks	271
Conclusion	273

Appendix	275
----------	-----

Index	373
-------	-----

Tables and Figures

1. The Electronic Commerce Industry 1

Figure 1.1—EC Industry Foundations	4
Figure 1.2—EC Industry Structure	5
Table 1.1—Definitions of the Five EC Sectors	7
Table 1.2—Correlation of Daily Stock Price Changes in the Five EC Industry Sectors	8
Figure 1.3—Growth in Internet Hosts and Users	10
Figure 1.4—Growth in Internet Relative to Other Electronic Devices	11
Figure 1.5—Progress of Moore's Law	12
Figure 1.6—Cost per Megabyte of Storage For Selected Years	13
Table 1.3—Negative Impact of the “Elephants” on the Industry	16
Table 1.4—Positive Impact of the “Elephants” on the Industry	16
Figure 1.7—Index Versus S&P 500: 1/97–5/98	18
Table 1.5—Initial Public Offerings in the Electronic Commerce Industry: 1/96–6/98	20
Table 1.6—Financial Profile of the Five EC Sectors	21

2. An Introduction to Electronic Commerce Security 23

Figure 2.1—Symmetric Key Encryption Process Flow	26
Table 2.1—Cost and Time to Break DES Keys	29
Figure 2.2—Public Key Encryption Process Flow	32
Figure 2.3—Dual Use Encryption Process Flow	34

Figure 2.4—Digital Signature Process Flow	35
Figure 2.5—Digital Certificate Production	37
Figure 2.6—Digital Certificate Verification	39

3. The Security Sector: Too Important for Its Own Good?

43

Figure 3.1—Security Sector: Current Day Structure	45
Figure 3.2	47
Figure 3.3	48
Figure 3.4	49
Figure 3.5	50
Figure 3.6	52
Figure 3.7	59
Figure 3.8	61
Figure 3.9	62
Figure 3.10	63
Table 3.1—Selected Network Security Conglomerates	65
Table 3.2—Selected Token Vendors	66
Table 3.3—Selected Encryption Tool Providers	66
Table 3.4—Selected Certificate Authority Providers	66
Table 3.5—Selected Privilege Managers	67
Table 3.6—Selected Niche Application Providers	67
Table 3.7—Products Offered by Selected Firms in the Security Sector	68
Figure 3.11—SET Payment Authorization	71
Figure 3.12—Projected Security Sector Revenues—1998–2001	81
Table 3.8—Recent Mergers and Acquisitions in the Security Sector	82
Table 3.9—Examples of Embedded Security Solutions	84
Figure 3.13—Security Sector's Likely End Game	89
Figure 3.14—Security Sector Performance Versus the EC Index and S&P 500	93
Table 3.10—Firms in the Security Sector Index as of December 31, 1997	94

4. Electronic Payments and the Death of “The Switch”

97

Figure 4.1—Generic Payment System Structure	99
Table 4.1—Different Categories of Payment Systems	101
Table 4.2—Credit Card Payment System Description	102
Figure 4.2—Credit Card Transaction Example	103
Figure 4.3—Credit Card Dollar Volumes 1994–1996	103
Table 4.3—EFT Payment System Description	104

Figure 4.4—EFT Transaction Example	105
Figure 4.5—EFT Transaction Volumes 1991–1996	106
Table 4.4—On-Line and Off-Line Debit Card Description	108
Figure 4.6—On-Line and Off-Line Debit Volumes 1992–1996	109
Table 4.5—ACH Payment System Description	110
Figure 4.7—ACH Transaction Example	111
Figure 4.8—ACH Payment Volumes	111
Figure 4.9—Electronic Check Transaction Example	113
Table 4.6—Different Types of Electronic Cash	114
Figure 4.10—F-EDI Transaction Example	120
Figure 4.11—F-EDI Volumes 1991–1995	120
Figure 4.12—Electronic Bill Payment Transaction Flow	121
Figure 4.13—Estimated Electronic Bill Payment Revenues— 1996–2001	124
Table 4.7—Card Payment Processors: Selected Firms	125
Table 4.8—Bill Payment and Presentment: Selected Firms	126
Table 4.9—Internet Payment Specialists: Selected Firms	127
Table 4.10—Electronic Payment Support Providers: Selected Firms	128
Table 4.11—Number and Value of Electronic Payment Transactions— 1991 vs. 1995	129
Table 4.12—Estimated Revenues Generated by Card Payment Processing Markets in 1996	130
Table 4.13—Size of Electronic Payments Sector—1996	131
Figure 4.14—Estimated Number of Electronic Bill Presentments 1997–2001	134
Table 4.14—Competing Options for Bill Presentment	135
Figure 4.15—Paper Check Share of Total U.S. Payment Volumes	137
Figure 4.16—Check vs. Card Payment Shares in Three Countries	137
Figure 4.17—Forecasted Credit Card Payment Volumes	138
Figure 4.18—Estimated Total Electronic Payment Sector Revenue— 1996–2001	140
Figure 4.19—Top 10 Credit Card Merchant Acquirers Market Share: 1992 And 1996	141
Figure 4.20—Current vs. Future Payment System Structure	143
Figure 4.21—Electronic Payments Sector Index vs. EC Index and S&P 500	147
Table 4.15—Firms in the Electronic Payments Sector Index	148

5. Financial Software and the Rise of the Integrator 151

Figure 5.1—Four Components of the Financial Software Sector	152
Figure 5.2—Front-End Software	153

Figure 5.3—Middleware	155
Figure 5.4—Core Processing	156
Figure 5.5—Electronic Bill Payment	157
Figure 5.6—The Problems with Financial Software	158
Figure 5.7—Ideal Solution to Financial Software Problems	161
Figure 5.8—A Realistic Solution to Financial Software's Problems	163
Table 5.1—Consumer Software: Selected Firms	166
Table 5.2—Business Software: Selected Firms	167
Table 5.3—Middleware: Selected Firms	168
Table 5.4—Ancillary Applications: Selected Firms	168
Table 5.5—On-Line Service Bureaus: Selected Firms	169
Figure 5.9—Consumers Likely to Use On-Line Banking	173
Figure 5.10—Cost Per Transaction by Channel	174
Figure 5.11—Various On-Line Banking User Projections	176
Table 5.6—Computer Shipments and Household Penetration Rates	176
Figure 5.12—On-Line Trading User Projections	177
Figure 5.13—Percent of Consumers Using ATM Machines 1975–1996	178
Figure 5.14—Number of Bank Sponsored Internet Sites Worldwide	179
Figure 5.15—Projected Bank Spending on On-Line Banking	179
Figure 5.16—Estimated Financial Software Sector Revenues—1996–2001	180
Figure 5.17—Integrator Site: Hypothetical Role	186
Table 5.7—Integrators: Selected Sites	187
Figure 5.18—Integrion's Role in the Financial Software Sector	193
Figure 5.19—Financial Software Index vs. EC Index and S&P 500	195
Table 5.8—Firms in the Financial Software Sector Index	196

6. Business Commerce and the Rise of the Distributed Extraprise

199

Figure 6.1—Open Commercial Exchange Business System	200
Figure 6.2—EDI Business System and Example Transaction Flow	204
Figure 6.3—DDI Business System and Example Transaction Flow	209
Table 6.1—Three Types of Business Commerce	214
Table 6.2—Selected OCE Firms	216
Table 6.3—Selected EDI Firms	218
Table 6.4—Selected DDI Firms	219

Table 6.5—Selected Service Firms	220
Figure 6.4—1996 EDI Sector VAN Revenues	221
Figure 6.5—Internet User Purchasing Rates	222
Table 6.6—Daily Sales of Selected Electronic Commerce Sites—1997	223
Figure 6.6—Estimated Number of Commerce-Oriented Internet Sites	225
Figure 6.7—Estimated OCE Revenue—1996–2000	226
Figure 6.8—Estimated EDI Revenues—1996–2001	226
Figure 6.9—Estimated DDI Revenues—1996–2001	227
Figure 6.10—Estimated Business Commerce Sector Revenues—1996–2001	228
Figure 6.11—Business Commerce Sector vs. EC Index and S&P 500	235
Table 6.7—Firms in Business Commerce Index	236

7. Commerce Content: Brands Battle Intelligent Agents 241

Table 7.1—Estimated Consumer Purchases Via the Internet—1995–2001	262
Figure 7.1—Estimated Business-to-Business Internet Purchases—1996–2001	263
Figure 7.2—Estimated Total Internet-Based Purchases—1996–2001	263
Figure 7.3—Intelligent Agent Example: BargainFinder	266
Figure 7.4—Commerce Content Sector vs. EC Index and S&P 500	270
Table 7.2—Firms in the Commerce Content Index	271

1

The Electronic Commerce Industry

Introduction

In 1991, the Internet was considered by many to be little more than an amusing academic backwater used by researchers to exchange e-mail and computer files. Then in late 1991 a computer scientist in Switzerland developed a system for easily displaying words and pictures on the Internet called the World Wide Web. Almost overnight the World Wide Web, with its ease of use, simple navigation, and widespread availability, transformed the Internet from academic backwater into potentially one of the most important technological advances of the 20th century. Indeed, while at the beginning of 1991 there were a total of just 376,000 computers on the Internet, today, over 500,000 computers are added to the Internet *each month*.

The Internet's explosive growth has not only changed the daily lives of millions of people, but it has also changed the fortunes of hundreds of companies. Starting in 1992, companies providing the basic infrastructure of the Internet, including network equipment (Cisco, Ascend, Cabletron), modems (US Robotics, Hayes), software (Netscape, Spyglass, FTP), and access services (Netcom, PSI Net, UUNet) all jumped aboard the Internet train and began to see tremendous growth as consumer and business interest in the Internet began to take off.

As the growth of this first wave of Internet companies began to stabilize, a second wave of companies dedicated to providing information over the Internet began to emerge in 1993 and 1994. These so-called "content" firms, such as Yahoo!, Lycos, Excite, and CNET, made their living by helping users find what they were looking for on the Internet and by providing customers with new sources of Internet related information.

But throughout all of this growth there was something missing. For despite all of the attention that the Internet was getting there was still a widespread reluctance to use it for the activity that occupies much of our daily lives: commerce. While fears about the reliability and security of the Internet were partially to blame, perhaps the biggest single inhibitor to the growth of the Internet as a medium for commerce was the lack of products and services that allowed businesses and consumers to easily conduct commerce over the Internet.

What some people saw as problems, others saw as opportunities and starting in late 1995 and 1996 a third wave of companies emerged each claiming to solve different elements of the "commerce" problem. Today, this third wave of companies is rapidly coalescing into a full-fledged industry of strategically and financially related companies that are all focused on just two words: Electronic Commerce.

As this new "Electronic Commerce" industry begins to enter its growth phase, it is creating a tremendous amount of excitement both in the popular press and in the investment community. Unfortunately, along with this excitement has also come a good deal of confusion. From grain processors to utilities, a confusing array of companies have suddenly recast themselves as "leaders of the EC industry." Such a wide variety of firms claiming to be involved in EC has made it very difficult for investors to determine which companies are truly in position to capitalize on the potential of EC and which companies are simply trying to expand the multiples on their stocks. This situation has also made it difficult for investors to determine which companies are competitors versus partners and what indicators should be used to judge the health and direction of the industry. This book attempts to clear up the confusion surrounding Electronic Commerce and the investment opportunities created as a result of its growth by answering a few basic questions about the EC industry including: What exactly is "Electronic Commerce"? How does it work?, and What are the real prospects for the EC industry?

Answering these questions will hopefully shed some light not only on the structure and operation of the EC industry, but also on the key success factors and major areas of opportunity going forward.

While this book is written primarily with investors in mind, it contains a great deal of general industry background and information and therefore should prove useful to anyone with an interest in the growth and development of Electronic Commerce.

What Is "Electronic Commerce"?

Perhaps the first question that bears answering in any examination of the EC industry is just what constitutes "commerce." While there are many