INTERNATIONAL BUSINESS

AN INTEGRATED APPROACH

JOHN J. WILD

KENNETH L. WILD

JERRY C.Y. HAN

E-Business
UPDATED EDITION

international business

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JOHN J. WILD
UNIVERSITY OF WISCONSIN, MADISON

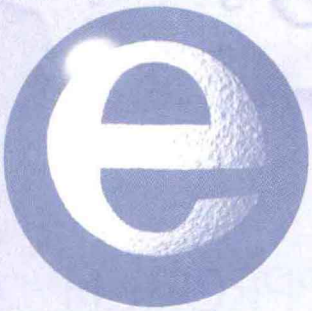
KENNETH L. WILD
UNIVERSITY OF LONDON, ENGLAND

JERRY C. Y. HAN
STATE UNIVERSITY OF NEW YORK, BUFFALO
UNIVERSITY OF HONG KONG

With contributions by Melanie Treviño

Prentice Hall

UPPER SADDLE RIVER, NEW JERSEY 07458



E-Business Update

Beacon

A Look at This Section

This update discusses how the explosion in electronic business is affecting important international business issues. It explores the World Wide Web, the Internet, and different types of electronic business transactions. It then explores several key areas of international electronic business.

For those who were skeptical about its eventual impact, there can no longer be any doubt: The Internet is changing the way the world does business. Every industry, from fast moving consumer goods to industrial products, is being affected by the dissemination and use of Internet technology to conduct business transactions. Companies at every stage in the value chain including manufacturers, distributors, and retailers are being forced to rethink their strategies in the context of Internet commerce. Managers are discovering that they must devise new tactics for competing in a business world that moves at Internet time. New ways of conducting business are threatening the viability of companies and industries slow to adapt to the new realities of Internet commerce. The Internet is further breaking down barriers to international competition, bringing more and more companies in distant locations into direct competition with one another.

What does this mean for companies in different regions of the world? Because the Internet was developed in the United States, it is there that Internet commerce is most advanced. Companies began using the Internet as simply one more broadcast medium to advertise their products. But today, many U.S. companies have woven Internet strategies into their traditional strategies. For these companies, attention is now turning to other geographic markets to get a jump on competition. Thus the markets of Asia, Europe, and Latin America are already seeing dramatic changes in the way their industries conduct business. The Internet revolution will land on every shore, and companies everywhere are planning for its arrival.

This update discusses how the explosion in electronic business is affecting important international business issues. We begin by explaining the nature of the World Wide Web and the Internet. Then we explore the scope of electronic business and important distinctions between different types of e-business transactions. We conclude this update by discussing how e-business is affecting important international business issues covered in various chapters throughout the remainder of the book.

THE INTERNET AND THE WORLD WIDE WEB

The **Internet** is the integrated global network of telecommunication equipment that provides for the electronic exchange of products and information. The Internet is often referred to as the "information superhighway" because of the enormous amount of information available through it. Access to the Internet typically requires the use of a personal computer, a modem, and physical connection to a computer server via telephone lines. Today, however, we can access the Internet with just a cellular phone—although only a limited amount of information is available this way.

Internet
Integrated global network of telecommunication equipment that provides for the electronic exchange of products and information.

The Internet supports what is called the **World Wide Web**—a user-friendly service operating on the Internet that displays information in what are called Web pages. The "Web" consists of individual Web sites run by organizations (companies, governments, special interest groups, etc.) and individuals. Every day, nearly 4,500 new Web sites are showing up and almost 2 million new Web pages appear. In 2002, there is likely to be about 8 billion Web pages on the Internet. Information is placed on a Web site using a computer programming language called hypertext markup language (html). Individual computers receive information from a specific Web site using what is called the hypertext transfer protocol (http). Receiving information from a Web site on a personal computer requires the use of a Web browser such as Netscape's "Navigator" or Microsoft's "Internet Explorer."

World Wide Web
User-friendly service operating on the Internet that displays information in what are called Web pages.

Figure E.1 shows a comparison of the number of years it took the World Wide Web versus several other innovations to reach a base of 50 million users. Thus we see that the Web grew faster than any other major technological introduction in history.

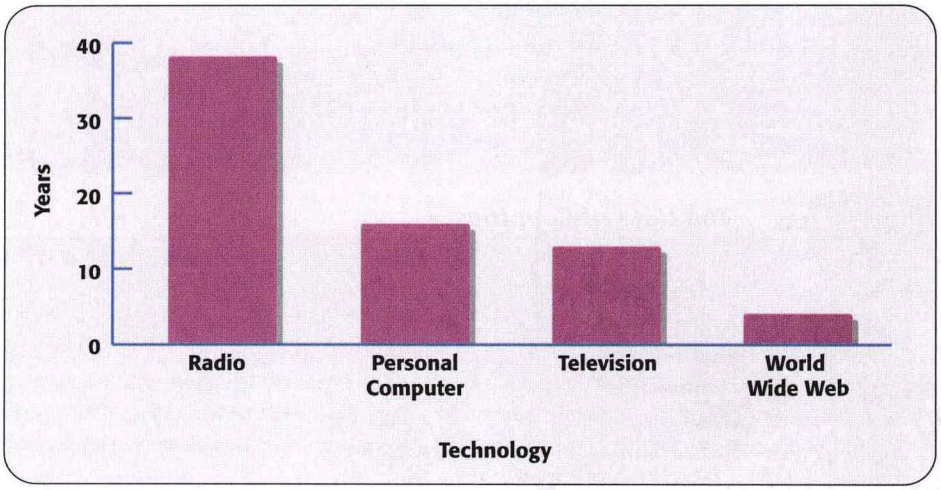


FIGURE E.1
YEARS TO REACH 50 MILLION USERS

The Internet has existed in various forms since 1969. However, until the World Wide Web was developed in 1995, the Internet was used primarily for e-mail and transferring large computer files. In fact, the number of Internet users doubled in each of its first three years of the Web's existence.

WEB SITE ADDRESSING SYSTEM

Every Web site has an address on the World Wide Web called a Uniform Resource Locator (URL). If you haven't already done so, visit this book's Web site ⟨http://www.prenhall.com/wild⟩. Notice the address begins with "http" and contains "www" which refers to the World Wide Web (today it is common to omit the "http" prefix when referencing an address because it is standard for every Web site). When a specific Web page is then accessed at the site, the "html" suffix appears at the end of the URL. Finally, the "com" portion of the URL indicates that the Web site is that of a company—in this case it designates this book's publisher Prentice Hall (abbreviated "prenhall"). Table E.1 lists the suffixes added to different organizations.

Because the Internet was created in the United States, the Web site addresses of U.S. organizations end with a ".com" or ".edu" suffix. The Web site of an organization located on a computer outside the United States adds a suffix that distinguishes its national origin. For example, the Web site of a company in Mexico adds ".mx" to the end of its address and one in Japan adds ".jp" to its address. Table E.2 lists the suffixes that are added to Web site addresses of a sample of nations.

This system of registering URL addresses (also called domain names) has created some major headaches for some of the world's best-known brands. So-called cybersquatters register global brand names in the domain designation of their home country. For example, registering your company's domain name in the U.S. ⟨www.yourcompany.com⟩ does not preclude someone from registering the same company name in the United Kingdom following that country's domain registration convention ⟨www.yourcompany.co.uk⟩—companies in the United Kingdom use ".co" in place of the ".com" designation for a company. International law still is not entirely clear on how to resolve such matters for many reasons, not least of which is which country's legal system has jurisdiction. One recent study looked into whether global companies are protecting their brand names worldwide. Curiously, the study found that 6 of the 10 least vigilant companies are in high-tech. For example, Gateway, Inc. ⟨www.gateway.com⟩ owns just

TABLE E.1 ***The URLs of Organizations***

.com	Companies
.edu	Educational institutions
.gov	Governments and their agencies
.org	Non-profits and other organizations
.net	Internet companies

TABLE E.2 ***The URLs of Countries***

.de	Germany	.dk	Denmark
.uk	United Kingdom	.it	Italy
.ar	Argentina	.at	Austria
.kr	South Korea	.jp	Japan
.nl	Netherlands	.br	Brazil
.au	Australia	.za	South Africa
.ch	Switzerland	.fr	France

three Web addresses worldwide and has allowed 39 derivations of this domain name to be registered—for example, see the Web site of Gateway Computing, Ltd. ⟨www.gateway.co.uk⟩. Texas Instruments ⟨www.ti.com⟩ owns just two domain names globally and has allowed 31 derivations of this address to be registered.[1]

WHAT IS ELECTRONIC BUSINESS?

The purchase, sale, or exchange of goods, services, or information over telecommunication networks is called **electronic business** (or **e-business**). E-business includes many types of activities including on-line advertising, distribution, billing, payment, and service. But e-business (also referred to as e-commerce) involves not only business transactions, but includes all types of electronic exchanges related to business (or commercial) activity.

electronic business *(or* ***e-business****)*
Purchase, sale, or exchange of goods, services, or information over telecommunication networks.

People often take part in electronic commerce when traveling—whether or not they realize it. For instance, many people no longer rely on traveler's checks when abroad on business because of the wide availability of Automated Teller Machines (ATMs) in industrialized countries. They simply place their credit card into the ATM's card reader and punch in their personal identification number (PIN). The ATM sends the PIN number and the account information it read from the credit card to the credit card company's computers for authorization. This is done via satellite transmission. When the transaction is authorized, cash is dispensed to the person at the ATM and his or her account in the home country is credited for the amount of the cash advance. This entire e-business transaction takes place in mere seconds.

BUSINESS-TO-CONSUMER TRANSACTIONS

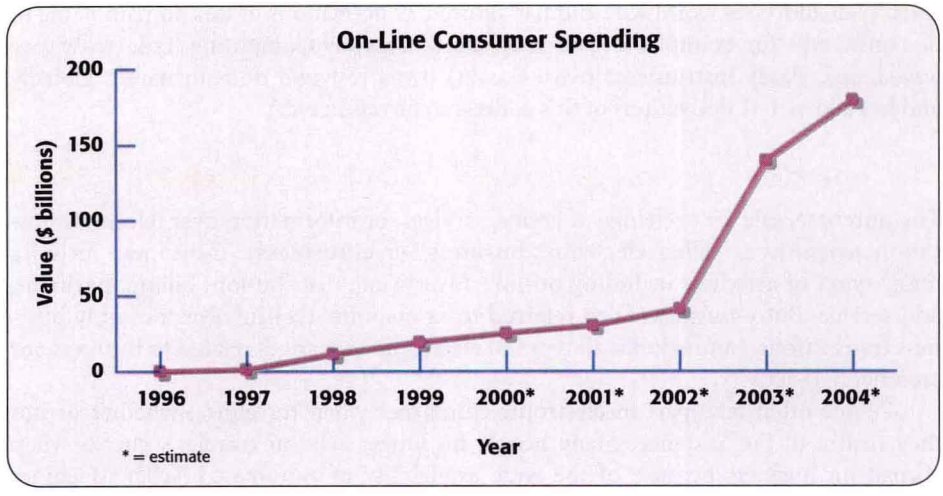
Most consumers access the World Wide Web through what is called an Internet Service Provider (ISP). The largest and best known is America Online ⟨www.aol.com⟩. AOL does more than simply provide access to the Internet. It channels its customers (Web "surfers") to the Web sites of companies either affiliated with AOL or those advertising on its Web site. Many of these companies have sites that are capable of selling goods and services directly to visitors over the Internet using a credit card. These transactions (called business-to-consumer transactions) account for a relatively small portion of total spending on the Internet. However, for most people it is the most visible type of transaction because either they are not personally involved in business transactions on the Internet or it is the type of transaction covered most by the media.

Figure E.2 shows the growth in the total value of on-line U.S. consumer spending in recent years. As we see, consumer purchases on the Internet did not really occur prior to the introduction of the World Wide Web, which made on-line shopping a fairly easy chore. The figure also shows the expected sharp rise in on-line spending in 2003 and 2004 that could approach $180 billion. The expected increase is due mostly to more households becoming comfortable with on-line shopping and the increasing user-friendliness of the on-line shopping experience. Experts anticipate seeing the same pattern emerge in other industrialized countries in coming years. Outside the United States, on-line sales are expanding most rapidly in Europe. Total on-line spending by businesses and consumers in Europe is expected to jump to $430 billion in 2003, up from $5.6 billion in 1998. Of the European countries, the United Kingdom should be the hottest market, with on-line spending expected to reach $50 million in 2002.[2]

marketspace
Electronic environment made up of telecommunication technologies in which electronic business activities occur.

The New Marketspace Traditionally, business transactions took place only between buyers and sellers in the marketplace—the physical environment consisting of stores, offices, and involving contact between individuals. However, e-business transactions take place (at least in part) in the so-called **marketspace**—the electronic environ-

FIGURE E.2
VALUE OF ON-LINE U.S. CONSUMER SPENDING



ment made up of telecommunication technologies in which electronic business activities occur. For example, a consumer in Germany purchasing a book on-line at the German Web site of Amazon.com ⟨www.amazon.de⟩ is a transaction that takes place (only in part) in the marketspace. Just part of this transaction takes place in the marketspace because the book itself must still be physically delivered to the customer with the help of a delivery service. On the other hand, purchasing the music of your favorite musical artist from MP3.com ⟨www.mp3.com⟩ is a pure e-business transaction. All that is required is for you to enter your credit card information and download the music directly onto your personal computer. The transaction takes place only in the new marketspace without any involvement of the traditional marketplace.

BUSINESS-TO-BUSINESS TRANSACTIONS

Transactions occurring between two or more businesses that do not involve consumers are called business-to-business transactions. These business-to-business transactions (commonly referred to as B2B transactions) account for around 80 percent of all e-business—totaling more than $150 billion in 1999 and possibly close to $3 trillion by 2004. Today companies in many industries are creating on-line markets to make the purchase and sale of component parts more efficient. For example, leading computer makers and their component suppliers made an important announcement on May 1, 2000. They announced a plan to create an on-line market where members can buy and sell computer components. "This will transform the way our business manages and optimizes its very complex supply chain," said Carly Fiorina, chief executive officer of Hewlett-Packard ⟨www.hp.com⟩. Executives involved in the deal believe that the new market could allow computer makers to trim 5 to 7 percent from manufacturing costs within the next few years.[3]

Figure E.3 shows the actual and estimated total value of U.S. business-to-business transactions between 1996 and 2004. As shown, the value of such transactions is expected to balloon in coming years as more companies move to performing many activities electronically to reduce costs. It is expected that this pattern will be repeated in other countries as the Internet becomes more accepted around the globe. Let's now take a look at how companies have used technology to carry out their transactions and how the Internet is changing the rules of the game.

Electronic Data Interchange There are several ways companies can carry out their e-business transactions in the business-to-business market.[4] First, they can use what is

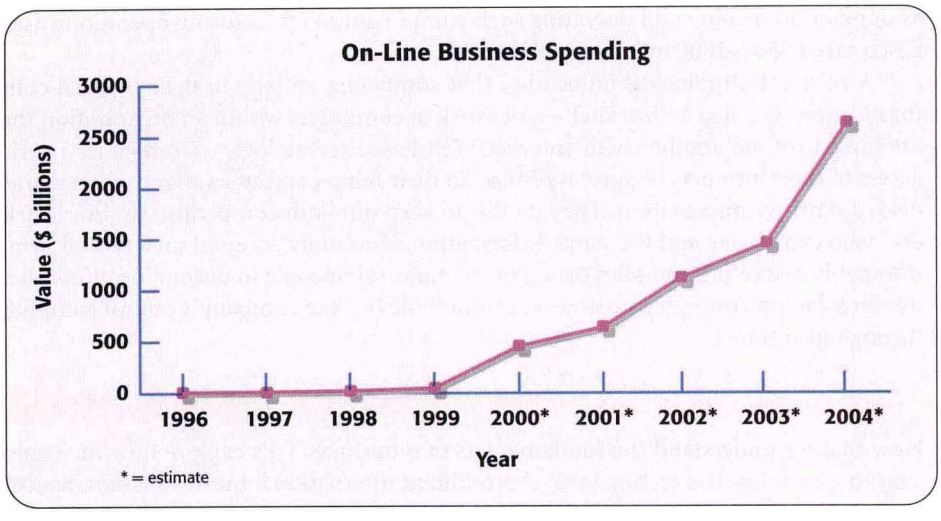


FIGURE E.3
VALUE OF ON-LINE U.S. BUSINESS SPENDING

called an **Electronic Data Interchange (EDI)**—a telecommunication network that businesses use to exchange information such as purchase orders, invoices, and electronic payments. Let's discuss the two main types of EDI—*traditional* and *Internet-based.*

Electronic Data Interchange (EDI)
Telecommunication network that businesses use to exchange information such as purchase orders, invoices, and electronic payments.

Traditional EDI A telecommunication network used to translate information created on different computer platforms into a globally understood language is referred to as a traditional EDI. For nearly 30 years until roughly 1996, it was the most efficient and effective way for companies (manufacturers, wholesalers, and retailers) to exchange information with one another. Procter & Gamble ⟨www.pg.com⟩, Toys "R" Us ⟨www.toysrus.com⟩, and Wal-Mart ⟨www.walmart.com⟩ are three companies that were instrumental in spurring the development of traditional EDI. One major innovation that traditional EDI launched was Just In Time (JIT) production scheduling.

Unfortunately, because of the large expense and complexity of setting up a traditional EDI system, only the world's largest companies benefited from its implementation. In fact, because of this high cost, many companies could only connect with the top 20 percent of its business partners—only those who could afford to make the investment.

Internet-based EDI In the mid 1990s, large and small firms alike benefited from the development of Internet-based EDI, often called an **extranet**—a telecommunication network that operates on a single platform that allows for the easy exchange of information between companies. Extranets use the Internet and World Wide Web to link together an unlimited number of business partners (such as suppliers, buyers, and even joint venture partners) at very low cost relative to traditional EDI. Because it makes use of the Internet, even small companies can afford to connect with business partners anywhere in the world. John J. Fontanella, director of supply-chain research at market-watcher AMR Research ⟨www.amrresearch.com⟩ in Boston, estimates that as much as 90 percent of all manufacturing could soon be done through the Internet.[5]

extranet
Telecommunication network that operates on a single platform that allows for the easy exchange of information between companies.

One company applying the new economics of the Internet to its manufacturing is Cisco Systems ⟨www.cisco.com⟩. Cisco outsources production of its computers to 37 factories with which it links through the Internet. These suppliers manufacture all components, do all subassembly work, and perform more than half of all final assembly work. In addition, they often ship the finished product directly to customers with no physical involvement by Cisco. Moreover, by generating 80 percent of its sales on-line, Cisco also needs fewer salespeople, technicians, and paper-shufflers. Using this model,

as opposed to owning and operating such component manufacturing operations itself, Cisco saved $500–$800 million in 1999 alone.[6]

intranet
Network of computers within an organization that are linked to one another with Internet/Web-based technologies.

A related technological innovation that companies employ in their internal communications is called an **intranet**—a network of computers within an organization that are linked to one another with Internet/Web-based technologies. Companies restrict access to their intranets because it resides on their main computers that contain a great deal of sensitive information. They do this to keep out both competitors and/or "hackers" who can be one and the same. Information commonly accessed on a typical firm's intranet is marketing and sales data. For example, salespeople in distant locations often use their laptop computers to access customer files on the company's central computer through its intranet.

KEY ISSUES IN E-BUSINESS

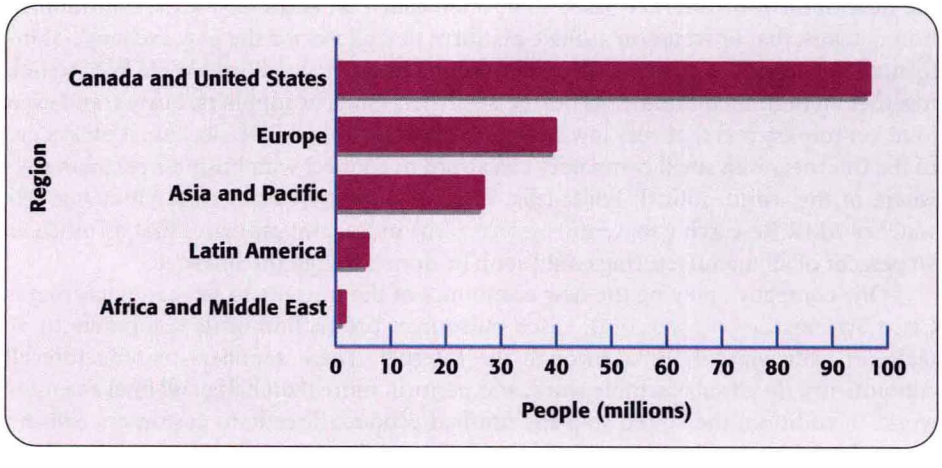
Now that we understand the fundamentals of e-business, let's explore how the explosion in e-business is affecting several prominent international business issues. Specifically, we examine language, buyer behavior, Internet censorship, Internet taxation, consumer protection, credit card fraud, e-trading, cybermarkets, and e-business strategy and structure.

CULTURE

The Internet allows companies to access markets they could never before reach in a cost-effective manner. Because the Internet was created in the United States, U.S. companies were first in using the Web to reach a worldwide market. Many companies believed all that was needed to appeal to a global audience was to launch their English-language, U.S.-based Web site. But cultural differences are as important in international e-business as they are in traditional forms of international business. Attention to cultural differences will become even more important as more people outside North America gain access to the Internet.

Figure E.4 shows Internet access by people in different regions of the world. However, this is a static picture. By 2004, more than 110 million Europeans will have Internet access—accounting for about one-third of all Internet users. Germany, the Scandinavian countries, and the United Kingdom will lead the way while Greece, Italy, and Spain will be laggards. The Asia Pacific region is expected to have nearly one-fourth of all Internet users by 2004. Today, 96 percent of all e-business is conducted in English.

FIGURE E.4
INTERNET ACCESS BY REGION



However, this will change drastically as the makeup of Net users shifts and begins to represent a more even distribution worldwide.[7]

Language We discuss the importance of language in international business in Chapter 2 and mention problems related to language translations on the Web (see page 43). Although many tech-savvy people around the world can and do speak English, there remains the possibility that Web site content can be misunderstood. Ideally, a company that does a great deal of retail business globally should have a local-language Web site based in each country in which it does business. Why? Imagine you are a consumer in Australia and wish to purchase an item from a German company. You would need to go to the company's Germany-based Web site, read through material in German, purchase the product, and have it shipped to Australia. This is a cumbersome process that could kill a sale before it begins. The shopping experience would likely be more pleasant and less risky for the consumer if the site were in English and the shipment initiated from within Australia. In addition, having a Web site in each local market can speed up download times for Web site content such as photos and graphics.

It is often the case that only the largest companies, or those that do a great deal of retail business in a country can afford separate Web sites in different countries. But smaller companies and those doing little retail business abroad should at least translate their Web site into the languages of those countries from which buyers are coming to the site. In fact, it has been reported that people are three times more likely to buy a product if a Web site is in their own language. "Every day that our site is not up and running in the customer's local language, we're losing business," says Bill Bass, vice-president of e-commerce at Lands' End ⟨www.landsend.com⟩.[8] Today, translation services are widely available and software to assist in such tasks is constantly improving and will make developing local-language sites a less difficult procedure. SDL International ⟨www.sdlintl.com⟩ is one company that supplies translation assistance and other localization services for companies involved in international e-business.

Buyer Behavior We cover buyer behavior issues in-depth throughout Chapter 2 and in Chapter 15 (for example, page 515). Consumers in different countries do not purchase things in exactly the same way. For example, while people in the United States generally are quite comfortable making on-line purchases with credit cards, the same is not true in Japan. In fact, less than 10 percent of on-line purchases in Japan are made with credit cards. Instead, Japanese buyers rely on bank transfers and cash-on-delivery (COD). Also, many Japanese consumers already go to their local 7-Eleven ⟨www.sej.co.jp⟩ store to pay utility and other bills—7-Eleven's Web site for the U.S. home market is ⟨www.7eleven.com⟩. Therefore, many Web merchants include "Payment at a 7-Eleven Store" as an option on their Japan-based Web sites. Following an on-line purchase, customers simply print out a payment slip and take it to their local 7-Eleven shop. Recently, 7-Eleven launched a new venture ⟨www.7dream.com⟩ that allows Japanese buyers to not only pay for their on-line purchases at one of 7-Eleven's 8,000 shops in Japan, but to pick them up there as well. Thus 7-Eleven shops in Japan could become e-business kiosks in Japan, acting as both payment and fulfillment centers.[9]

Also, the way products are described and the detail to which descriptions go should be tailored to the way consumers shop in different cultures. Some cultures may be quite familiar with a product, a Palm Pilot ⟨www.palm.com⟩ for example, and need little more than pricing information. People in other cultures may be less knowledgeable and require details on how a product actually functions and each of its compo-

nents. Companies that lack knowledge of local customers are often wise to partner with a local firm that can supply in-depth cultural understanding.

INTERNET CENSORSHIP

Government regulation of all types of international business activity is nothing new. In Chapter 3 we explain that nations can have very different political and legal systems and that this affects the extent to which they regulate business activity. The same holds true for international e-business activity.

The people of some countries (such as Germany, Sweden, the United Kingdom, and the United States) are inundated with "dot.com" advertisements daily and have access to practically any Web site they desire. Meanwhile, the people of other countries (such as Libya, North Korea, and Turkmenistan) probably don't know what the Internet is and are lucky if they have even been exposed to it. People of still other nations (such as Burma and China) have access to the Net but are restricted in its use and are severely punished if they stray from the law. For instance, software engineer Li Hai of Shanghai, China, received a two-year jail sentence for passing a list of Chinese e-mail addresses to a U.S.-based pro-democracy group in 1999.

Some governments block access to certain information in their conventional media but are dismayed when they see people easily accessing it on the Internet. One example is Saudi Arabia's restrictions on the Internet because of the presence of sites offering pornography and gambling—both clearly against Islamic values. The governments of other countries stifle free speech because of fears that it could undermine their authoritarian regimes. These nations restrict Internet access to reduce people's access to criticism of the political leadership by sources outside the country.

Although governments have a number of tools at their disposal to restrict Internet access, citizens have all sorts of ways to evade the watchful eye of big brother. "In Syria, for example, people go to Lebanon for the weekend to retrieve their e-mail," says Virginie Locussol, RSF's desk officer for the Middle East and Africa specialist. Web surfers can also get around government restrictions by dialing up an ISP in their own country and then connecting to a server outside the country that has no restrictions placed on

In the early years of the Web's introduction into Malaysia, the government restricted its use severely. However, it recently relaxed its controls on Internet access, in part, to lure global, high-tech firms into its new Multimedia Corridor. Students at Malaysia's Muslim University also benefited from fewer Internet restrictions by being able to access materials to complete assignments.

Source: (c)Tara Sosrowardoyo/ Indopix 1998.

it.[10] Internet service providers are also doing their part to get around government restrictions. For example, it takes two months on average for Chinese authorities to track down the relay server of a site and block access to it, according to Zhang Weiguo, editor of the U.S.-based Chinese-language Web site New Century Net ⟨www.ncn.org⟩. All a blacklisted site must do is simply change its address and go on with business as usual until caught and filtered out once again. Even if censors are somewhat successful in their efforts, censored pages are sometimes distributed by e-mail—similar to the way underground newspapers are photocopied and passed around secretly.[11]

One organization that reports on the methods governments use to restrict Internet access is Reporters Without Borders (RSF) ⟨www.rsf.fr⟩ based in Paris, France. According to RSF, 45 countries restrict their citizens from freely accessing the Net. The organization calls 20 countries "enemies of the Internet" because they control Internet access totally or partially, censor Web sites, or take actions against Internet users. Table E.3 on page E-12 lists these 20 countries and describes how each one restricts access.

Among other things, the RSF calls on the governments of these nations to:[12]

- Abolish state monopoly on Internet access and stop controlling private ISPs
- Not oblige citizens to register with the government before obtaining Internet access
- Abolish the use of censorship filters and stop blocking access to sites maintained abroad
- Protect the confidentiality of Internet exchanges, particularly by lifting controls on e-mail
- Cancel legal action against Internet users that exercised their right to free expression

INTERNET TAXATION

In the text, issues related to government taxation of commerce are covered in Chapter 3 (pages 105–107). The regulation objectives of governments of industrialized countries are relatively less invasive. These nations realize the potential boost that e-business can give their economies in increasing efficiency and creating customer value. Light government regulation—especially in the area of taxation—has been shown to have a positive influence on e-business activity. For example, in the United States the volume of e-business skyrocketed in part because of a moratorium on the levying of sales taxes on Internet purchases. This also has certainly been one factor in U.S. companies gaining a leadership position in many industries that are moving to the Net. But this moratorium will not remain in place indefinitely. One reason is that individual state governments are losing revenues that they would otherwise be receiving on sales at brick-and-mortar stores. Second, brick-and-mortar retailers are lobbying their public officials, making the case that e-retailers have an unfair advantage because they attract customers wishing to avoid sales taxes.[13]

CONSUMER PROTECTION

Subjects of controversy that many governments are vigorously pursuing on the Net are hate speech, child pornography, and the protection of consumer privacy (regarding financial and other types of personal data). Authorities often work side-by-side with legitimate businesses to devise reasonable sets of regulations. For instance, a meeting was held in Germany in September 1999 by the Bertelsmann Foundation, a public

TABLE E.3 Enemies of the Net

Belarus	Single, government-owned ISP (Belpak) restricts Internet access.
Burma	State monopoly on Internet access. Anyone owning a computer must declare it to the government (failure to comply may result in a 15-year prison term).
Tajikistan	Single, government-owned ISP (Telecom Technologies) restricts Web access.
Turkmenistan	A black hole of information—more restricted than Tajikistan.
Uzbekistan and Azerbaijan	Privately owned ISPs exist but are controlled by the telecommunications ministry (which chastises those who speak out against the government).
Kazakhstan and Kyrgyzstan	Authorities charge private ISPs extremely high usage and connection fees.
China	Government keeps pressure on users who are closely monitored and supposed to register with the authorities.
Cuba	Government-controlled Internet access. Independent (and illegal) news agencies such as Cubanet and Cuba Free Press phone reports to news organizations in Miami who publish them on the Web—Cuban government punishes offenders when found.
Iran	Censorship includes blocking sites containing/discussing sexuality, religion, criticism of the Islamic Republic, and mentions of Israel and the United States. Filters ban access to some sites—for example, medical students are denied access to Web pages that deal with anatomy.
Iraq	No direct access to the Internet—very few people own computers. Web sites of official press and some ministries are maintained on servers in Jordan.
Libya	Internet access impossible in Libya.
North Korea	Internet access impossible in North Korea. The few official sites aimed at foreigners are maintained on servers in Japan.
Saudi Arabia	Traffic of private ISPs passes through servers of Science and Technology Center—a public body that filters sites that provide "information contrary to Islamic values." Internet is officially regarded as "a harmful force for westernizing people's minds."
Sierra Leone	Authorities crack down on opposition press—including on-line newspaper "Ninjas" which is maintained on a server abroad ⟨www.sierra-leone.cc⟩.
Sudan	Government-owned ISP (Sudanet) restricts access to the Internet.
Syria	Internet access officially banned to individuals—offenders may face prison sentence. Government provides Internet access to state-owned news agencies and ministries.
Tunisia	The two privately owned ISPs are controlled by the government—one run by the president's daughter and the other by a person close to the government.
Vietnam	Permission required to access the Internet and use is restricted to one of two state-owned ISPs. Access blocked to sites maintained by Vietnamese organizations based abroad and international human rights organizations.

Source: Adapted from Reporters Without Borders, "The Twenty Enemies of the Internet" Press Release, August 9, 1999, Available World Wide Web ⟨www.rsf.fr/indexuk.html⟩.

policy research organization run by media giant Bertelsmann Corporation ⟨www.bertelsmann.de⟩. The meeting resulted in a call to act upon several measures including:[14]

- Broader use of rating and filtering mechanisms at the user end, as opposed to the source
- Development of a system consisting of international hot lines to speed detection of subjects such as child pornography
- Expansion of industry self-regulatory measures such as codes of conduct

Despite national efforts by industry and government, international agreements regarding privacy issues can be far more elusive. One high-profile disagreement is currently taking place between the United States and the European Union (EU). The EU wants stronger consumer privacy in e-business transactions than U.S. companies can presently provide. The EU is protesting the export of personal data gathered in the course of e-business transactions between European consumers and U.S. businesses. At present, a solution to the problem is very expensive. To satisfy EU demands, U.S. companies would need to establish separate computer systems within Europe that would store personal information on EU customers.[15] Government regulation issues are covered in the text in Chapter 3 (pages 99–107).

Credit Card Fraud Another hot issue in cyberspace is the real and potential abuse of credit card information by individual hackers and organized crime. Credit card fraud is certainly nothing new. Consumers have seen personal credit card information abused for years when there existed only brick-and-mortar stores. Many consumers believe that they are responsible for all Internet purchases made on their account. But if the credit information of an on-line buyer is stolen and put to fraudulent use, credit card companies limit the personal liability to $50, with the companies assuming the remaining liability. In fact, they often forgive even the consumer's initial $50 liability. But help may be on the way in deterring cybercrime. It is likely that rating agencies will be formed to certify Web sites that are deemed safe for conducting e-business. Such ratings would be based on an e-merchant's ability to provide privacy regarding a customer's financial or health-related information.[16]

FINANCIAL MARKETS

The text covers financial markets thoroughly in Chapters 9 and 14—here we discuss only those issues related to the Internet and these markets. The Internet's raw power to effect change is perhaps being felt more strongly in financial markets than in any other realm of international business. Information is the lifeblood of financial markets—lenders and borrowers rely on information to make informed financial decisions. The "information superhighway," as the Internet is often referred to, is forcing fundamental changes in the global financial system. The Internet is altering several key aspects of international financial markets:[17]

- Markets will be more efficient and liquid as markets remain open 24 hours a day and investors may buy shares directly from companies. Trading volume on stock exchanges will rise as the cost of trading shares falls drastically.
- Risk taking and risk management will change as financial institutions design more sophisticated risk-management tools.
- Economic growth will continue worldwide as technological innovation and economic activity increase in efficient capital markets.
- Investors will become increasingly savvy at Internet investing, causing the volume of on-line transactions to soar despite a steep learning curve.
- Management of financial institutions will reduce costs by building a direct pipeline to customers.
- Governments will be pressured to increase the transparency of their financial institutions, but financial and regional financial meltdowns will likely continue.

E-Trading We see the impact of several of these elements at work in the brokerage industry. Moving financial transactions onto the Internet is threatening many long-

established stock brokerage firms. In fact, by many estimates, as much as one-half of all retail stock trades could soon be conducted on-line. New, on-line financial intermediaries (or e-brokers) with lower cost structures allow investors to buy and sell shares of stock at far less cost than making trades through a broker at a brick-and-mortar institution.

For instance, e-broker Ameritrade ⟨www.ameritrade.com⟩ charges just $8 for a stock trade regardless of the number of shares traded. Meanwhile, a traditional broker-assisted trade through long-established broker Charles Schwab ⟨www.schwab.com⟩ is $144 for 1,000 shares and $375 for 10,000 shares. Ameritrade, on the other hand, charges just $18 for a broker-assisted trade (regardless of the volume of shares traded). Charles Schwab has responded to the threat posed by e-brokers by aggressively promoting Internet trades. However, Schwab's prices tend to be significantly higher—it charges $29.95 for on-line trades of 1,000 shares and $299.95 for on-line trades of 10,000 shares. Two other e-brokers making inroads on the turf of traditional brokers are Datek ⟨www.datek.com⟩ and E*Trade ⟨www.etrade.com⟩. Datek charges $9.99 and E*Trade charges $14.95 for low-volume trades but both charge higher fees for larger volume trades.[18]

Cybermarkets We discuss how so-called cybermarkets (electronic stock markets) are helping spur growth in the international equity market in Chapter 14 (page 304). Cybermarkets pose a real threat to long-established financial institutions such as NASDAQ ⟨www.nasdaq.com⟩ in the United States. The introduction of Germany's Neuer Markt ⟨www.neuermarkt.com⟩ illustrates the kinds of changes ushered in by cybermarkets. Another less successful on-line exchange based in Europe is Easdaq ⟨www.easdaq.com⟩ based in Brussels. Although Neuer Markt began in 1997 with two listed companies, in early 2000 it boasted more than 200 listed firms with a market valuation of more than $80 billion. Neuer Markt's rapid growth was driven by general excitement about the Internet, a trend toward greater equity investment in Europe, and its own relaxed listing requirements.

Similar to NASDAQ, Neuer Markt lists primarily fast-growing startup companies in the technology sector—the so-called new economy companies. But while trades are executed electronically on Neuer Markt, trades are still executed over fax machines and telephones by human market makers at NASDAQ. This older way of executing orders will surely be phased out soon. As NASDAQ's president Al Berkeley says, "traditionally,

Traditional stock exchanges require a physical location where a large number of brokers and intermediaries make the market function. The Stock Exchange of Hong Kong ⟨www.sehk.com.hk⟩ is a large facility on an island where rents are very expensive. The Internet can reduce or eliminate many of the costs associated with large, physical, stock exchanges by replacing them with entirely electronic exchanges (or cybermarkets).

Source: Photo Researchers, Inc./(c)Rick Browne.

the financial markets are full of intermediaries and intermediaries' intermediaries. It will be disintermediated."[19]

E-BUSINESS STRATEGY & STRUCTURE

In Chapter 5 (page 174) we explain the importance of the so-called first-mover advantage—the economic and strategic advantage gained by being the first company to enter an industry. Companies doing business on the Internet also covet the first-mover advantage. So far, evidence from the development of the Internet shows that those who do not move quickly on the Web will lose out to the nimble. One company taking an aggressive approach to international expansion is California-based eToys ⟨www.etoys.com⟩. The company is launching a retail site in the United Kingdom ⟨www.etoys.co.uk⟩ as a beachhead for future international expansion. "The first-mover advantage is significant," says James Bidwell, eToys director of marketing for Europe. But eToys is utilizing a partnering strategy in its international e-business activities, not going it alone. In the United Kingdom, eToys is partnering with local companies for activities including Web site management, marketing, merchandising, purchasing, and public relations and advertising. "Across all areas of our business. . . We are coupling local knowledge with our U.S. track record," says Bidwell of the firm's strategy.[20]

In Chapter 12 (pages 427–429), we discuss the issues surrounding the centralization versus decentralization decision. The key issues of concern in this decision reflect the desire of companies to "think globally and act locally." They want to increase efficiency and effectiveness by centralizing those activities that do not require local expertise and decentralize those that do. We've already discussed the operations of companies whose storefronts exist only on the Internet. Such e-businesses are not immune to the need to consider the centralization versus decentralization question. E-corporations must also consider the structure of their businesses, just as traditional brick-and-mortar companies do.

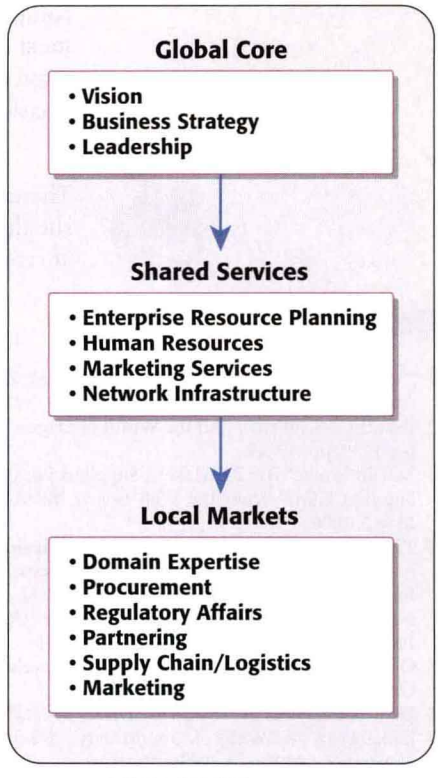


FIGURE E.5
GLOBAL E-CORPORATION
Source: Adapted from Mohanbir Sawhney and Suant Mandal, "Go Global," *Business 2.0*, May 2000, pp. 180–181.

Figure E.5 shows an emerging three-layer model for global e-corporations. In this model, the global e-corporation consists of a global core of activities that includes corporate vision, leadership, and strategy. It is in this core that top executives decide how it will approach international expansion and provide leadership in corporate-wide marketing efforts and administration. The second layer consists of a set of shared services that each regional market unit obtains from the global core. These include enterprise resource planning (procurement), human resource management, marketing, and network infrastructure (partner management) services. The third layer is at the level of local markets and includes those business activities that require knowledge of the local market to be effective. Activities here require an understanding of local domain expertise, local customer nuances, regulatory issues, supply-chain management, and management of local partnerships. The model illustrates a way for companies to balance the efficiencies of centralizing certain activities while being responsive to local market needs.[21]

A FINAL WORD

The Internet is changing the way the world does business in many ways. Every company, industry, and nation is being affected by the widespread use of the Internet and World Wide Web. As such, the Internet is continuing to break down barriers to international competition and bringing companies in distant locations into direct competition with one another. The Internet revolution is landing on every shore, and

companies, industries, and entire nations must rise to meet the challenge. Companies must consider important cultural, legal, political, and financial issues that are being altered by the World Wide Web. They also must address how the Web is affecting their decisions related to corporate strategies and structure.

There is a variety of additional e-business material available on the companion Web site that accompanies this text. You can access this information by visiting the Web site at ⟨**www.prenhall.com/wild**⟩.

Notes

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