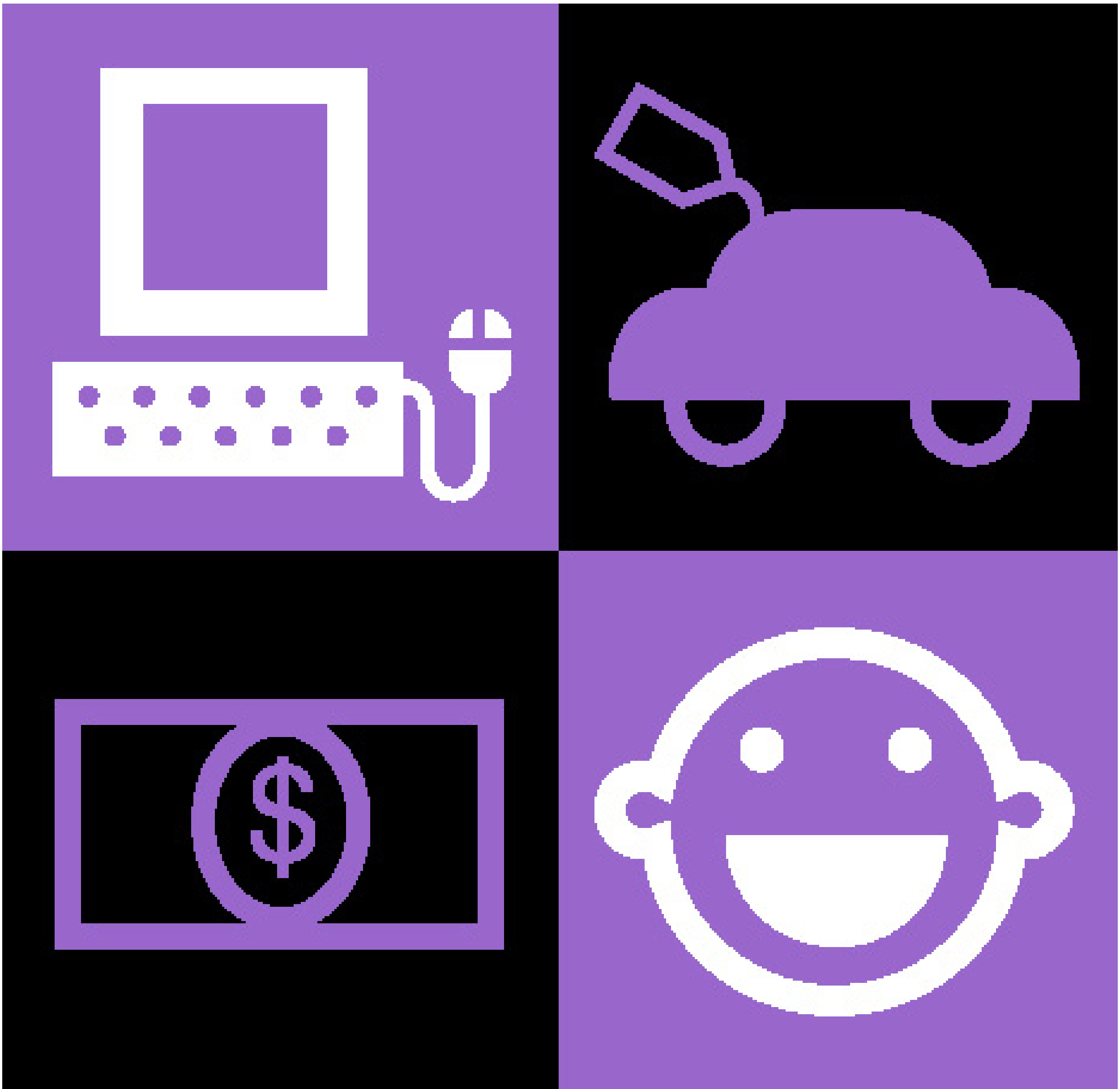


Weje Sandén

The Net as a marketplace

The Swedish experience

TITLE
The Net as a Marketplace - the Swedish experience

AUTHOR
Weje Sandén

SERIES
Telematik 2001

KFB Report 1999:7

ISBN (KFB) 91-88371-20-4
ISSN (KFB) 1104-2621

TELDOK Report 123E

ISSN (TELDOK) 0281-8574

DATE PUBLISHED
February 1999

PUBLISHER
KFB – Kommunikationsforskningsberedningen and TELDOK, Stockholm

KFBs DNR 1996-0833

Telematik 2001 aims to show changes, from an IT user's perspective, which can be predicted or perceived in the Swedish information society for the next five years. Telematik 2001 also aims to provide useful data for decisions on necessary measures for activities affected by these changes. Telematik 2001 is a joint programme between the Swedish Transport & Communications Research Board, KFB, and TELDOK .

Telematik 2001 documents the early use of telecommunication information systems. Changes that are taking place because of efforts to realise the knowledge and information societies, and the effect these changes may have on Sweden, are used as a starting point. The programme utilises the fact that a great deal of the information society of year 2001 can be perceived and studied in real life and in demonstration environments several years before 2001. We can speak of early use, early users and early technology. To a large extent, the programme focuses on early users who identify what the future holds for large user groups.

Twelve publications have been produced in the Telematik 2001 series during 1998 and 1999. The Net as a Marketplace is the first report also to appear in English.

The Swedish Parliament has delegated to the Government Authority KFB (www.kfb.se) the task of supporting communications research in Sweden and co-operating in international research. KFB is also responsible for providing information and documentation within this field of research.

TELDOK (*www.teldok.framfab.se*) was initiated in 1980 by Telia, Sweden's largest telecommunications operator, which provides the financial support. TELDOK aims to document and disseminate experience of early use of IT applications.

KFB reports are sold through Fritzes', e-mail: *fritzes.order@liber.se* S-106 47 Stockholm.
Other KFB publications can be ordered directly from KFB

TELDOK reports can be ordered from Lindegården by calling +46-65080102 or at TELDOK's web site, *http://www.teldok.framfab.se*

Preface

Under the heading "The Things We *NEVER* Considered" in his weekly newsletter The Rapidly Changing Face of Computing (*www.compaq.com/rcfoc*), Jeff Harrow often gives other people's assessments of how electronic commerce is progressing. It's on the increase! One Internet user in four ordered something from a Web site in 1998 and Christmas shopping on the Net was expected to be double the 1997 level. Zona Research believes the size of the overall electronic economy will have grown to six times its present level in the year 2001, at 204 billion US dollars.

Weje Sandén, an experienced business journalist specialising in IT, reports on e-commerce in The Net as a Marketplace. But perhaps its subtitle, 'the Swedish experience', gives a better indication of what is of particular value and worth reading in his account.

Using statistics not previously published, Sandén describes in detail the growth and success of a number of Swedish Web sites. The pioneering pacesetters he interviewed have perhaps understood better than others how to make use of the new business opportunities and logic offered by the Web, even if there are also outstanding American examples in the same fields (which Weje also documents).

The Net as a Marketplace is published as part of the Telematik 2001 programme created by the Swedish Transport and Communications Research Board, KFB, and TELDOK.

Telematik 2001 is in the process of publishing over a dozen reports and pamphlets on IT and the business community, IT and the home, and the information society – for and against. Most of them appeared in 1998. They are based on the assumption that studies of today's early users and uses can provide guidance for tomorrow's decisions and actions.

KFB (*www.kfb.se*) is a state authority that plans, initiates, coordinates and supports overall research, development and demonstration work in telecommunications etc. TELDOK (*www.teldok.framfab.se*) documents early uses of IT, with the backing of Telia, the state-owned telecommunications enterprise.

We wish you good reading.

Urban Karström	Bertil Thorngren
Director General,	*Professor, CIC, Stockholm School of Economics,*
KFB	*Chairman of TELDOK's Editorial Committee*

Contents

Introduction

"The Internet is the hottest business location in the world," said AT&T President Michael Armstrong in his speech at Internet World in New York, in October 1998.

Many observers are certainly inclined to agree. Hardly a day goes by when we do not hear or read about what is taking place in the electronic marketplace.

In January 1995 I wrote an article in a magazine called Decisions under the headline "The Net is the new marketplace". It stated that commercial interest in the Internet had woken up:

"Volvo and cosmetics company Oriflame market their products in the US on the Net, as does Ericsson. Cable-maker Habia has also joined in. At least three more large Swedish listed companies have plans which are far advanced for providing services on the Net."

The article concluded with the words, "Nevertheless, we have only seen the beginning."

Little did I – and most others – suspect how fast developments would move. Today, it sounds as though the article were written ages ago. But scarcely four years have elapsed.

In that short period a handful of Swedish corporate pioneers have been joined on the Net by thousands of Swedish companies. Even if their efforts vary in ambition and scope, the Net is starting to become an integrated part of the business of more and more companies.

A great many books and articles have also been written during this time. However, many are speculation about what might be expected and are based on examples from the business world that are almost anecdotal in character. It is remarkable how the same ones, nearly always from the US, continually recur.

The purpose of this report has been to document the practical experience gained by Swedish companies on how e-commerce changes distribution and affects their competitiveness, and then broaden the viewpoint and supply factual information.

Its title is "The Net as a Marketplace – the Swedish experience." The book is based on a large number of interviews plus a study of the relevant literature. In all, some 30 companies in different sectors have been studied. Of these, I have chosen ten and documented them in detail. In addition, the report describes and discusses how the Internet affects basic conditions in different sectors of industry and commerce.

The idea is not simply to describe an exciting and in many ways dramatic development in the Swedish business world towards the end of the 1990s. I also hope the report will serve as a source of inspiration, and in some respects also an alarm clock for companies that have not progressed as far as those described in adapting themselves to the new conditions.

There is no doubt that as the new marketplace, the Internet will bring about far-reaching changes in large parts of the business world.

In conclusion, I should like to thank those behind Telematik 2001 – the Swedish Transport and Communications Research Board, KFB, and the Teldok Foundation – for their backing and patience with this project. My thanks go too, to Anna Spång (cover and graphic design), Stanley Bloom (translation from Swedish), and my wife Marta, for her support and valuable opinions during the course of the work.

Weje Sandén

Stockholm, November 1998

The Net as a marketplace

German exporters lose sales because of Internet

By Peter Norman in Bonn

German exporters, battling against a strong currency and high labour costs, have found another cause for their declining

"German exporters lose sales because of Internet," was a headline on the front page of the Financial Times on March 27, 1996.

The article reports that German industry, which already had to contend with a strong currency and high labour costs, found another reason why its products were losing ground on foreign markets – the Internet.

According to Michael Fuchs, head of the German Trade and Export Association, companies were losing lucrative niche markets because the worldwide computer network made it easier to compare prices, and so competition was stiffer.

"Where once a German company would offer to supply goods abroad and be fairly sure of winning the order, it was now likely to find the potential customer quoting more competitive prices from other suppliers," writes the Financial Times.

Whether the complaints were justified is open to question. Commercial activity on the Net was very limited at that time, early in 1996. If it had an effect on German exports, it must have been only marginal.

Landmark event

But the Financial Times article must nevertheless be seen as a landmark event. Many column metres had indeed already been written about the new threats and opportunities the Internet offered companies and industries.

However, this was the first time a leading representative of the business world, in all seriousness, blamed the Net for lost business and less competitiveness.

Since then the Internet has developed at a faster pace than most people could imagine. In just two or three years it has changed from a meeting place mainly for enthusiasts and technology buffs, into a global marketplace of some 100 million people who exchange information and do business twenty-four hours a day, all year round, unfettered by frontiers and geography.

Every day that this electronic market grows, more and more companies become aware of its existence. In industry after industry new players are using the new technology to start up and challenge the existing companies.

The Gartner Group, which analyses the market, estimates that 300,000 companies will be doing business on the Net in 1999, three times as many as in 1998. And the number will double to around 600,000 by the turn of the century.[1]

Changing competitive conditions

Banks, stockbrokers, the computer, car and book trades, and travel agencies are examples of sectors where the Internet is in the act of changing basic competitive conditions.

"Every company today competes in two worlds; a physical world of products that managers can see and touch, and a virtual world made of information," stated Jeffrey R Rayport and John J Sviokla in an article in the Harvard Business Review a few years ago.[2]

Not being on the Internet may soon prove to be a serious disadvantage and the question is now the subject of strategic discussion by managements in many companies.

In a survey by Price Waterhouse prior to the World Economic Forum in Davos in February 1998, 369 top international business leaders were asked for their views on electronic commerce.

Nearly 70 per cent believed it will have a considerable effect on competition. Moreover, one in five was convinced it would completely alter the basic conditions in their industries.[3]

Similar conclusions are drawn in the report presented at the OECD's ministerial conference on electronic commerce in the Canadian capital, Ottawa, in October 1998.

---

[1] The Internet Retailing Report, Morgan Stanley 1997, *www.ms.com*

[2] Exploiting the Virtual Value Chain, Harvard Business Revies, Nov-Dec 1995

[3] *Industrins gamla stötar tar hem spelet* ("Industry's old guard win the game), the business weekly *Veckans Affärer* 11/1998.

"Though only three years old, it has the potential to radically alter economic activities and the social environment," the report states by way of introduction.[4]

The US investment bank Morgan Stanley writes along the same lines when it says in an analysis of Internet commerce[5], "We believe the Internet represents the potential creation of the greatest, most efficient distribution vehicle in the history of the planet."

Forty times greater

But we are still only at the preliminary stage of this process. The OECD report estimates that business activity on the Net had a total turnover of 26 billion US dollars in 1996-97.

It may seem a lot, but is equal to less than half a per cent of retail sales in seven leading OECD countries[6], or the gross domestic product of Vietnam.[7]

But all the forecasts point towards a very rapid increase, even if the levels can vary greatly. As can be seen from the diagram, the OECD expects commerce on the Net to be some 40 times greater at around 1,000 billion dollars, or half the German GDP, within five or six years.[8 9]

Electronic commerce forecast, billions of dollars	
1996-97	26
2001-03	330
2003-05	1,000

Source: OECD

The World Trade Organisation, WTO, estimates that the Internet will account for some two per cent of all commercial transactions in the industrialised world soon after the turn of the century,[10] and that

[4] The Economic and Social Impacts of Electronic Commerce: Preliminary Findings and Research Agenda, OECD 1998, *www.oecd.org*

[5] The Internet Retailing Report, May 1997, *www.ms.com*

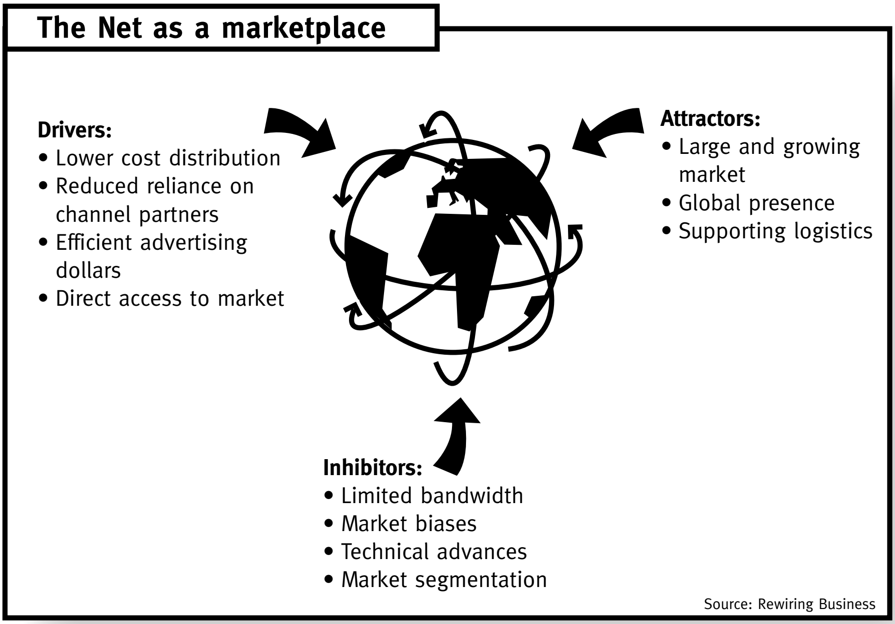
[6] The USA, UK, Germany, Canada, Japan, France and Finland.

[7] The World in 1998, The Economist Publications.

[8] The Economic and Social Impacts of Electronic Commerce: Preliminary Findings and Research Agenda, OECD 1998, *www.oecd.org*

[9] The World in 1998, The Economist Publications.

[10] Electronic commerce and the role of the WTO, World Trade Organisation, 1998, *www.wto.org*



The Net as a marketplace is affected by several factors. The book "Rewiring Business" divides them into three categories: drivers, attractors and inhibitors.

25–30 per cent of economic activity in the industrialised countries will be greatly affected by electronic commerce in five years' time.

For its part, Forrester Research predicts that five or six per cent of the US's GDP will be Internet-based in the year 2005.[11]. All of them also expect business-to-business trade to far exceed business-to-consumer commerce.

New marketplace

Regardless of which forecast is correct, the trend is clear:

A growing proportion of corporate operations will take place on the Net, making it the new marketplace.

Economists usually describe a market as a meeting place for buyers and sellers of goods and services[12]. In its original meaning, a market

---

[11] According to George Colony, President of Forrester Research, at a meeting at the Grand Hotel in Stockholm on May 8, 1998.

[12] A more detailed description is given in volume 13 of the Swedish *Nationalencyklopedin* ("National Encyclopaedia").

was a gathering at a regular time and place for the purpose of trade. It follows that it referred to a particular geographical area. The word has gradually acquired a more abstract meaning taking its starting point from the goods and services being traded. Examples are the stock-, property-, electricity- and labour markets.

The market has undergone major changes over the centuries. Until now, researchers have divided this development into three phases:

The first occurred during the Middle Ages when the formation of towns and the rise of the Hanseatic League's trading network led to growing market commerce.

The second took place in the 16th and 17th centuries when new patterns of trade were developed following discovery of the New World and subsequent European colonisation.

The third began in the industrial revolution and has continued down to our day with mass production, free trade and the growth of worldwide commodity and money markets.[13]

Historically, the greatest changes have occurred in connection with the development of new distribution and communications technologies. The railway, motor car, telegraph and telephone have all contributed towards changing the structure of the market and its way of working.

The Internet possesses the underlying conditions for staging the fourth phase in the development of the market.

Ideas about an electronic marketplace are by no means new. Companies have exchanged documents before, using Electronic Data Interchange, EDI, which was introduced back in the 1960s. And banks have made payments among themselves by Electronic Fund Transfer, EFT.

Old restrictions disappear

But in both cases specially-developed, complex and expensive software adapted to the customer, is needed. Moreover, the parties have to decide in advance to establish a permanent connection. That is why it has been difficult for EDI, for instance, to attain widespread use outside of a number of large companies and their closest suppliers.

With the Internet, all these restrictions have disappeared. In prin-

[13] Ibid

ciple, anyone can start and conduct business operations in a global market. All that is needed is a computer, a modem and a telephone line. You can communicate electronically with an unlimited number of companies and people without needing to know them. And that at a fraction of the former cost. Today, a few hundred dollars is sufficient, even if there are companies that invest millions in their Net services.

Ivan Wladavsky-Berger, head of IBM's Internet division and also a member of the board of CommerceNet, which is an international association to promote business on the Net, believes the Internet's most important contribution by far is that it has created a common standard.

He says that for the first time, the prerequisites now exist for IT to become generally available in the same way as the telephone and electricity. It hasn't been possible before because of a number of competing systems.

This also opens new opportunities for companies to market, sell and distribute goods and services, as well as to find customers and provide service and support.

What makes the Internet revolutionary is that it dramatically increases the field of operations and room for manoeuvre for both buyers and sellers.

In short, the Net as a market fundamentally changes the basic conditions for doing business:

- **Geography losing importance**
  Localisation, at present a key factor in most business activity, is no longer a necessary consideration for success. Companies can set up shop wherever it is most convenient for them to do so and not necessarily close to the market. As they are never farther away than the nearest computer with Internet access, the need to have a store or office on the spot is reduced.

  "The death of distance will be the single most important economic force shaping all of society over the next half century," argues author and journalist Frances Cairncross of The Economist[14].

- **Time factor changing**
  Many of today's activities in business and society are functions of

[14] The Death of Distance – How the Communications Revolution Will Change Our Lives, Frances Cairncross, 1997.

time. Mass production is a consequence of the fact that it is the quickest way of producing at the lowest cost. The same applies to the need to be close to the market. Time defines what is close.

The Net cuts the time taken to carry out a transaction from hours, days, or weeks to an electric impulse. It increases the pace, speeds up production cycles, enables companies to work in close interplay with each other.

- **Dramatic increase in interactivity**
  The Internet enables companies to establish direct contact and communicate with both suppliers and customers. This applies to small businesses and private households as well, which are thus given the opportunity to communicate and carry out transactions anywhere in the world, at any time. It creates better conditions for one-to-one marketing. With more and more information easily available, customer power is also increased.

- **Falling transaction costs**
  The inefficiency, or imperfection, of the market means there are always certain costs involved in making a purchase or a deal. How big these transaction costs are varies. Standardised products such as shares have relatively low transaction costs, while others, such as cars and homes can have very high ones.

  According to British economist Ronald H Coase, who was awarded the Nobel Prize in 1991 for his findings on the subject, there are six types of transaction costs. Among them are those for searching, being informed, evaluating, negotiating terms and carrying out a deal[15].

  The Net makes the process both simpler and faster as information is never more than a click away. The market becomes more efficient and transaction costs fall, in some cases dramatically.

  There is usually a lot of work involved in finding the firm offering the best price for a good or service. It means the search process is most often limited to the suppliers closest at hand or best known.

  There are no such limitations in the electronic market and it is the search costs that are limiting.

[15] For a more detailed account see Unleashing the Killer App – digital strategies for market dominance, Larry Downes & Chunka Mui, 1998.

- **Changed price structure**
  As the Net makes comparisons easier, not only locally or regionally but also globally, prices become transparent. This affects the price structure, but does not necessarily lead to lower prices or a more even level. At the same time, the Internet provides room to customise products and services, 'mass-customisation', as well as the possibility of better market segmentation and electronic auctions. It can result in greater price differentiation in the market.

- **Higher productivity**
  The Net increases corporate productivity. By publishing the required information on the Net, the sales process can be improved and productivity of sales staff increased by a factor of ten. Similarly, the time taken to deal with orders can be drastically reduced. In some cases, fewer errors and simpler handling have led to savings in time of between 50 and 96 per cent.[16]

  Customer service and after-sales support are a growing expense for many companies, sometimes amounting to more than ten per cent of operating costs[17]. It can be cut by putting functions such as manuals on the Net, at the same time that the level of service is raised.

- **Supply chain shortened**
  As manufacturers and suppliers can go straight to the customer, or skip one or more intermediaries, the supply chain becomes shorter and more efficient. This has consequences for the traditional middlemen – brokers, agents, wholesalers and retailers – whose main task is to bring buyers and sellers together. Their function is changed and risks disappearing in its present form unless they are able to adapt to the new conditions.

- **Size is not everything**
  Size no longer determines success in the market. Small businesses can offer the same services on the Net that were previously the preserve of large organisations with abundant resources. This is further strengthened by the trend of the past decade towards outsourcing operations that are not part of the core business. Companies no

---

[16] The Economic and Social Impacts of Electronic Commerce: Preliminary Findings and Research Agenda, OECD 1998, *www.oecd.org*

[17] Ibid.

longer need to have every form of competence themselves, but can buy what they need from specialist firms.

- **Lower entry level**
  Finally, the Internet lowers the entry level. Even small companies and private individuals can reach an international market at relatively low cost and have the same reach as bigger organisations. It creates more room for niche players.

  That does not mean to say success is easier to achieve than in the physical world. On the other hand, as Frances Cairncross states[18], the cost of failure is far less.

  Taken as a whole, the new marketplace means greater competition and that traditional roles in the business world are being challenged to an extent seldom seen.

  In subsequent sections we will take a closer look at how the Internet as a marketplace is affecting individual industries, and the practical experience gained by, and consequences for, Swedish companies.

[18] The Death of Distance – How the Communications Revolution Will Change Our Lives, Frances Cairncross, 1997.

400 days that changed Swedish banking

It is November 1996. Östgöta Enskilda Bank has called a press conference at its Stockholm office. The Managing Director, Ulf Lundahl, is there with a handful of his colleagues.

The purpose is to announce the start of Sweden's first "real" Internet bank. Until then it was only possible to get account details on the Net. But at *Hembanken* ("the Home Bank"), as Östgöta chose to call it, customers would also be able to pay bills by PO or Bank Giro and transfer money from one bank account to another.

A demo version of the new bank is displayed at the press conference. A lot of work still remains to be done. The consultants who had been brought in toil day and night to be ready in time. The starting date has been moved forward to Friday November 29, 1996.

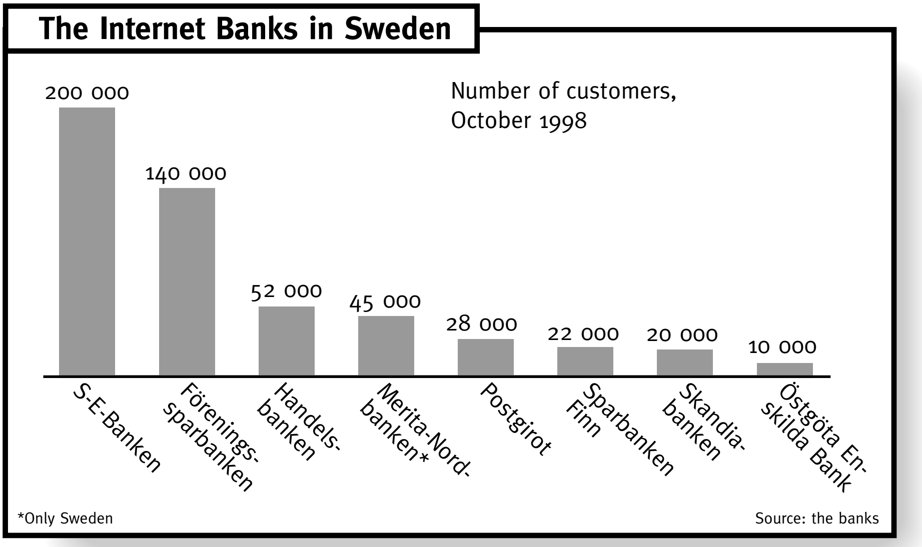
The reason is that S-E-Banken let it be known a few days earlier that its Internet branch will open on Monday December 2. And the Östgöta management are determined to be first. So there is a race against time.

Few people suspected what impact the Internet would have on Swedish banking. Not least the banks themselves. And so several competitors were playing a waiting game. The prevalent attitude was more haste less speed.

But they soon had reason to think again.

Seldom has a new service met such a great response from bank customers. SEB, which launched its Internet office to the accompaniment of an extensive advertising campaign, was caught napping by the rush (see The smallest branch one of the world's biggest, page 28). Östgöta Enskilda Bank did not put as much into its marketing, but nevertheless soon received thousands of applications to join its "Home Bank".

Suddenly, the competitors were also in a hurry. It was a matter of climbing aboard, of not being left behind and losing market shares. News that customers were changing banks to get access to the new services gave further cause for anxiety. And so the order went out in



SEB holds the lead among the Internet banks, both in absolute and relative terms. Some 13 per cent of its customers have joined. Skandiabanken and Sparbanken Finn in the southern province of Skåne claim the same percentage, but they have fewer customers.

several banks to bring forward or speed up the work of setting up an Internet branch of their own.[1]

So more and more of them opened up on the Net in 1997. And when the last of the big commercial banks, Handelsbanken and Nordbanken, started at the end of December 1997, only 400 days had elapsed since the press conference at Östgöta Enskilda Bank.

Record response

Never before in Swedish banking history has a new technology received such a rapid response. It took more than ten years for cash dispensers to get established and more than five before all the banks had a telephone bank. So it is not to be wondered at that many bank managements were hesitant about the Internet.

By the end of 1997 some 200,000 Swedes were using the Internet

[1] This was described to me several times in May 1997 when writing an article on the Internet banks for the business weekly *Veckans Affärer*. In one case words such as ‘panic’ and ‘chaos’ were used to describe the situation.

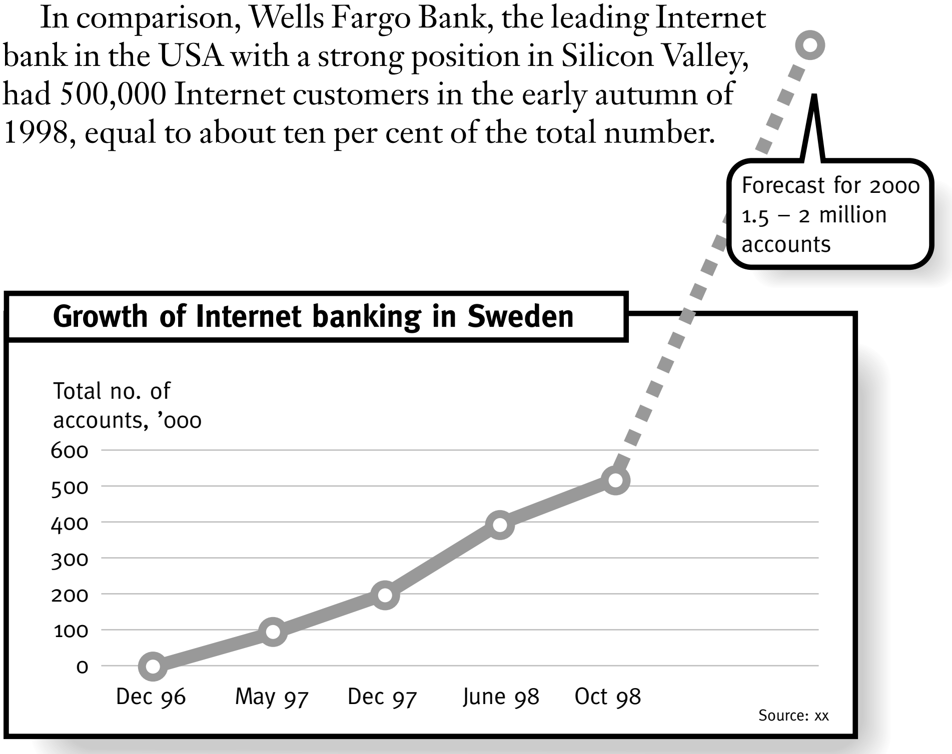
banks. Since then growth has accelerated further. Ten months later, in October 1998, the number had passed the half million mark by a wide margin. SEB kept its lead and accounted for almost 40 per cent of all Internet customers (see diagram).

More than 10 per cent of all account holders at SEB and a few more banks are already on the Net.

"If you count only the salary accounts, we're up around 30 per cent," says Magnus Gustavsson at Sparbanken Finn in Lund, which was first in Sweden to open a PC bank to which customers could phone via a modem and carry out their business. An Internet version has since been started.

This makes banking far and away the most popular Internet service in Sweden. Nothing else has anywhere near the same number of active users. Sweden is also one of the countries that has progressed farthest, both with regard to users and the percentage of Internet banks.

In comparison, Wells Fargo Bank, the leading Internet bank in the USA with a strong position in Silicon Valley, had 500,000 Internet customers in the early autumn of 1998, equal to about ten per cent of the total number.



Swedes are the world champions at banking on the Net. At the end of 1997 there were 200,000 customers. Ten months later there were more than twice as many. And at the turn of the century the figure is expected to be between 1.5 and 2 million. The ketchup effect is at work.

And still fewer than half of the country's 10,000 or so banks are on the Net.[2]

Well-developed infrastructure

One reason why Swedish banks are out in front is that the country has a well-developed infrastructure, with the Giro system for instance, which makes it easier and quicker to develop new solutions. The Swedes have been far advanced with banking innovations in the past too. Both the Giro system and ATMs spread more quickly here than in other countries.

The rapid growth is also expected to continue. Forecasts speak of between 1.2 and 2 million Internet customers at the turn of the century.[3]

"Our ambition is for a million customers to do their banking business on the Internet after the start of the next millenium," says Peter Nordblad, CEO at Föreningsbanken's Internet bank. Föreningssparbanken has a total of five million customers, 3.5 million of them active.

The potential is there. According to a study by Öhrlings Cooper&Lybrand in the autumn of 1998, only 20 per cent of Internet users use the Net for banking business and paying bills. On the other hand, getting on for 70 per cent state that they wish to do so in the future.[4] When the survey was carried out, 46 per cent of the population between the ages of 18 and 74 had access to the Net[5].

On top of that is the corporate market. So far only SEB, Föreningssparbanken and Östgöta Enskilda Bank are offering companies Internet service. But it is probably only a matter of time before the others follow suit. The interest is said to be enormous. Between them, the three banks had some 18,000 corporate customers connected to the Net in October 1998.

"We see the Internet quite clearly as a main channel for banking services in the future," says Peter Jerhaf, Marketing Manager at Öst-

---

[2] The Industry Standard, September 21, 1998, *www.thestandard.com*

[3] See e.g. *Massiv anslutning till Internetbankerna* "Massive support for the Internet banks", *Veckans Affärer* 21, 1997.

[4] *Internetmarknaden i Sverige* "The Internet Market in Sweden", Öhrlings Cooper&Lybrand, September 1998.

[5] Ibid.

göta Enskilda Bank, which is alone in making remittances abroad and salary payments for companies on the Internet.

The reasons why Internet banking has become so popular are that it is convenient and gives customers greater accessibility as well as better control and a better overview. Nowadays, banking transactions are mainly concerned with transferring information, rather than money. The proportion of notes and coins in relation to the gross domestic product, GDP, has fallen steadily in the past 30 years. As banking transactions are also undertaken regularly, the great interest is really hardly surprising. Few other services are better suited to the Net.

"To be honest, the mere fact that it is so troublesome to go to a bank is sufficient to attract customers," says Anders Lindqvist, Managing Director of Telia Electronic Commerce and previously in charge of business development at SEB.

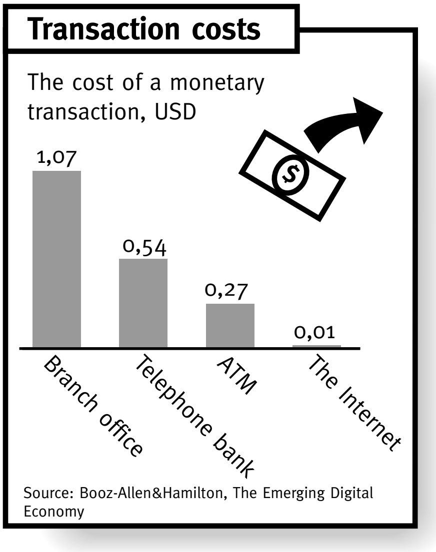
Strategic necessity

From having been a means of competition, the Internet has become a strategic necessity for the banks. Customers simply expect that they can get account statements and pay bills via the Net – in the same way that they assume their bank is connected to the *bankomat* ATM system.

The level of service is one of the most important factors in choosing a bank. Having several channels of distribution means greater convenience and therefore a more attractive bank.

It has made the niche banks, which have so far been marking time, take the plunge. Among them are Ikanobanken, JP Bank and the new constellation of Wasabanken and Länsförsäkringar Bank and SalusAnsvar Bank, all of which will have Internet banking services in 1999 at the latest.

"The Internet is no longer a



A transaction on the Internet beats everything else. The cost is only one-hundredth of what it would have been at the branch of a bank.

means of competing against the market," says Dan Tavares, head of SEB's Internet Office. "On the other hand, the competition is with other banks as the business requires volume," he adds.

Therefore the banks try different ways of getting more people to use the Net. SEB, for instance, has offered a free three-month Internet subscription and in Britain the US Citibank is tempting potential customers with a year's free surfing. Differentiated pricing is another method.

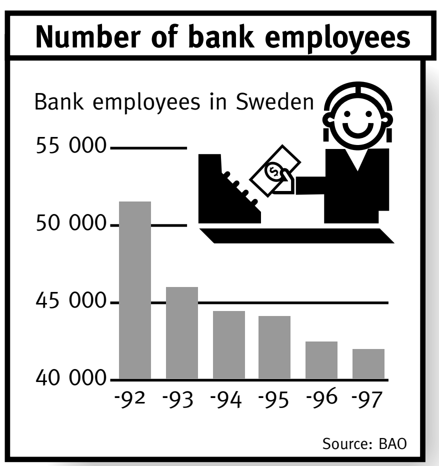
But it is not simply a matter of increasing volumes. The banks also have a strong financial incentive. Transactions on the Net are considerably cheaper than at ordinary branches, dispensing machines, or a telephone bank. The table shows that an Internet transaction costs only one-hundredth as much as a visit to the bank. One reason is that the customers bear the greater part of the outlay. Apart from paying for their computer and the cost of calling, they also do the work involved. Slightly simplified, it can be asserted that the cost to the banks is limited to a few bytes of computer capacity in their own system.

Moreover, the Internet makes it possible to offer more services and to conduct one-to-one marketing.

Half the branches may disappear

At the same time, staff are dismissed and premises eventually given up. The Swedish banking system has been engaged in extensive structural change for some time. The number of employees has fallen by 10,000, or 20 per cent, in the past five years, while branches are becoming fewer and fewer. 1,200 have disappeared in the past 15 years. 2,500 remain. But according to several observers up to half of those can disappear in the next five to ten years. The Internet is not the sole cause. The merger between Föreningssparbanken and Sparbanken makes 200 branches superfluous. But the Net is likely to speed up the process.

Technological changes in the banking and finance system have



The number of bank employees has fallen by 20 per cent in the 1990s. The Internet will accelerate the process.

been many and various. And each time something new has been introduced – the telegraph, credit cards, cash dispensers, telephone banking – the system has become more efficient and convenient.

But it has not affected the position of the branch office very much. On the contrary, the branch network has always been regarded as a very important competitive factor. As customers want to withdraw or deposit money during business hours, more often than not they choose a branch close to their home or where they work. Therefore it is important to be where the customers are.

At least, that is how it has been until now. The Internet can bring about a change. Perhaps not immediately. So far the range of services offered by the Internet banks is relatively rudimentary, consisting of standardised products such as paying bills, transferring money, taking small loans and buying and selling securities.

Wideband gives new services

But as the technology is developed and transfer capacity increases, room is being created to offer new services adapted to the individual. The day video conferencing technology breaks through and homes have access to wideband capacity, it will also be possible to offer personal advice and investment assistance at a distance.

That does not mean the physical branches will disappear entirely. Despite everything, there are many situations in which personal contact is to be preferred. But there will be no need for as many branches and employees as today. For those that remain there will also be a great adjustment to be made. The competence required will increase when the task changes from handling routine transactions to giving skilled assistance and advice.

It is far from being a simple quick-change act. Traditionally, the banks have not had to sell themselves to any great extent. Customers have come along nevertheless as there have not been very many alternatives. In future, the banks must be more proactive, cultivate a new sales and marketing culture and be able to offer the customer real added value. But that requires both the right attitude and right competence.

"When we get simple, instructive solutions on the Net, such as tips on how you as a customer should divide up your savings, it will put enormous pressure on the customer-advice people in the banks," says

Anders Lindqvist at Telia Electronic Commerce. “It’s a costly business for the banks today,” he goes on. “Therefore the advisors must be able to create real value to survive.”

There is no doubt that the banks are now exposed to greater competitive pressure than 10, or 20 years ago. Bank savings, for instance, have lost a lot of ground to shares and funds, which have prepared the way for a large number of independent stockbrokers and fund managers. The new Internet brokers say that a large proportion of their customers come from the banks.

Financial portals a threat

Thanks to the Internet, many of these brokers now see further opportunities for offering services that were the preserve of the banks in the past. So far, the clearest message has come from the American E*trade, with its declared ambition of becoming the leading financial portal on the Net and thus also of offering banking services. But there are Swedish Internet brokers who hope to provide banking and financial services too.

The customers are already there and the previous obstacle, the requirement of a distribution channel of one’s own, is no longer insurmountable. The Internet goes a long way. As these are smaller and strongly focussed companies which, as opposed to the banks, do not have a large organisation and a number of different operations to take into account, they can be a difficult competitor. At least, that is one of the arguments usually put forward.

There are US forecasts that maintain online brokers will be responsible for more than 50 per cent of the financial activities of households on the Net after the turn of the century.[6]

On top of this is the threat from players outside the traditional financial sector. Among them are the telecommunications and IT companies, as well as the new Internet portals. True, they lack financial competence, but control the channels of communication instead, or have direct contact with the customers.

Most banking transactions are already being carried out through the telecommunications network. It should be a simple matter for

---

[6] Net brokers threaten banks, CNET September 15, 1998 *www.news.com/News/Item0,4,26416,00.html*

Microsoft, the dominant supplier of PC software, to integrate a banking service in Windows or Excel. Like the Yahoo search engine and Intuit, the USA's leading supplier of personal finance software, Microsoft is also active in developing new Internet services. Microsoft and Yahoo have started marketplaces for property and housing. Microsoft's 'Carpoint' is now one of the US's leading online-shopping services for cars (see Revolution in the car trade, page xx) and Intuit is trying to make its Web site 'Quicken' into a portal for financial advice by collecting lots of information and links. The step from there to offering direct banking services as well is therefore not great. On the contrary, it should be of immense interest as unlike car and property purchases, banking business recurs regularly.

Loyalty a trump card

It would probably require the participation of one or more banks, as none of the companies have their own resources or competence. But in that case, it would be in the role of subcontractor. And that is also where the threat lies as the banks would then lose direct contact with their customers at the same time that the competition with others became clearer. A simple click and customers can compare terms with those offered by other suppliers of financial services on the portal. Other potential competitors are airlines, credit-card companies, petrol companies and chains of retail outlets with their large and faithful clienteles, well-developed sales channels and strong trade marks. The ICA and KF store cards have become a great success by offering higher interest on deposits than the banks.

In an article that attracted much attention when it appeared a few years ago, the US Business Week magazine stated that banking is necessary for the modern economy, but not banks.[7]

But the banks have a strong trump card – customer loyalty. There is a lot of inertia in the system and studies show that customers are more loyal to their bank than their broker, for example.[8]

To portray the banks as losers in advance is also wrong, considers Anders Lindqvist at Telia Electronic Commerce. In the same way that the Internet gives outsiders a chance to compete with them, it also

---

[7] The Future of Money, Business Week, June 12, 1995.

[8] Breaking the Bank, Red Herring, October 1998.

gives the banks greater opportunities to develop and cultivate relations with their customers. By packaging and customising services such as equity trading, fund management, insurance and other credits according to the needs and desires of each customer, the banks can take charge of a larger part of their customers' assets.

Different logic and business

"So far, discussion has been about distributing traditional services in a new way," says Anders Lindqvist. "But as their customers have started doing business in a new way, the banks must change too," he continues. "Instead of staring hard at distribution, they should go in for developing new products. They have a gigantic chance."

Wells Fargo Bank carried out a test prior to Mothers' Day 1998. Customers were given the opportunity to order flowers straight from its Internet bank. 700 jumped at the offer.[9] But there are other possibilities. A conceivable scenario is for a bank to negotiate advantageous terms to purchase cars on behalf of its customers. They could notify the bank of their interest by way of the Net and the bank could then enter negotiations with the manufacturer. Citibank's offer of a free Internet subscription is a variation on the theme, offering added value over and above traditional banking services.

But it not only requires another logic. It is also another business.

The next section describes how SEB is tackling the new situation.

[9] Ibid.

SEB

Smallest branch one of the world's biggest

The SEB management hoped their Internet bank would get 10,000 customers in the first six months. But the target was passed on the opening today, December 2, 1996. There were long queues at several branches and in Kista, Sweden's IT centre in north-west Stockholm, the crowds were so great that the staff had to go out into the street and collect the application forms.

"Since then we've stopped making forecasts," says Dan Tavares, previously marketing manager of the Sesam telephone bank, but in charge of SEB's Internet business since March 1998. "They'll be irrelevant anyway," he adds. "In three or four years' time it will be possible for every Swede to do banking business on the Net."

No other Swedish Internet project has attracted so much attention at home or abroad. After two months the Internet branch was the biggest in Europe.[1] And even if the competition has increased, SEB has managed to keep its leading position.

"We are still counted as one of the top five Internet banks in the world," says Dana Tavares.

The bank has also won several awards[2] and been studied by a steady stream of visitors from abroad. Many assert that SEB more than anyone else has helped increase interest and the will to do business on the Net.

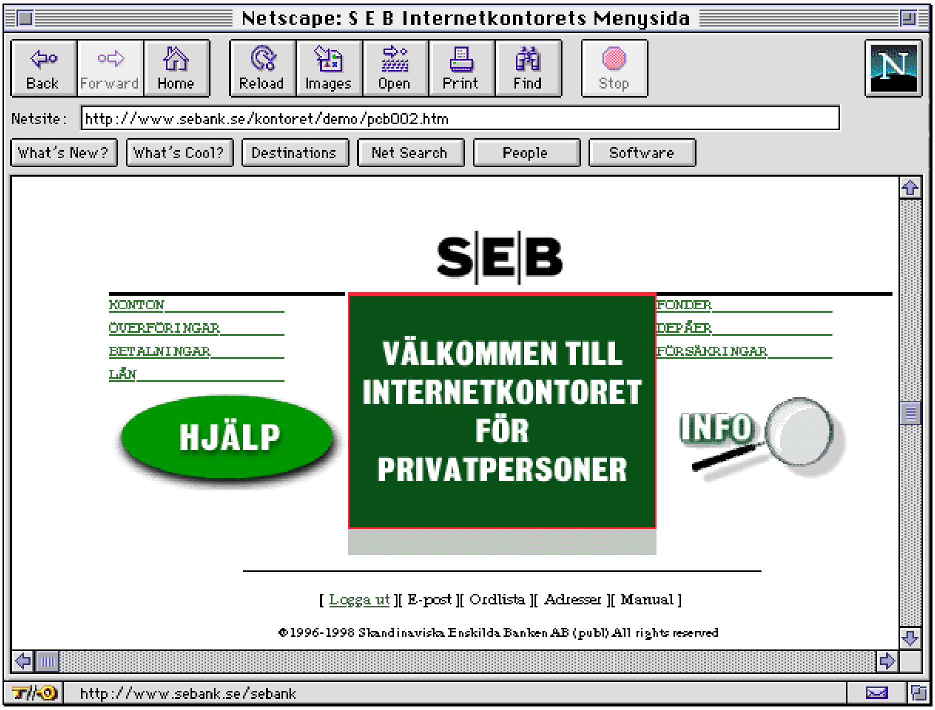
Chance and lucky timing

Nevertheless it was partly by chance and luck with the timing that S-E-

---

1 *Veckans Affärer*, May 20, 1997.

2 Several magazines, including Internet World and Corporate Computing, made it the Internet project of the year. At Comdex in Frankfurt, S-E-Banken was awarded third prize in the technical design category. Anders Lindqvist was chosen as the financial innovator of the year 1997 by *Finanstidningen* and GE Capital, and as one of Sweden's top 12 marketers by the magazine Vision.



SEB's home page. Customers can choose different services.

Banken took the lead. Originally, it was not at all the Bank's intention to invest in the Internet. There were doubts about both security and the amount of interest. Instead, the idea was to start a PC bank, with customers connecting directly to the bank's computer by modem, and perhaps having access to the Internet later. Moreover, it was to be a trial.

But as the work proceeded and it was seen that the security problems could be satisfactorily solved, the Internet stood out as a better alternative. In April 1996 plans for the PC bank were finally abandoned. When S-E-Banken heard rumours in the autumn that Sparbanken was working on something similar, the decision was taken to force the pace.

"We saw the chance to be first," says Anders Lindqvist, who was then in charge of business development at S-E-Banken and led the Internet work. He is now Managing Director of Telia Electronic Commerce.

Business is what counts, not technology

The backing and commitment of the bank's management was a necessary condition for the project. Not the technology. Instead, the crucial problems were purely commercial. What risks were attached to an Internet bank? How could it affect the trust S-E-Banken enjoyed and its image on the market?

Those were some of the considerations the management had to decide on before giving the go-ahead. Assessing the risk also required time. To avoid losing any, work on developing systems and making all the necessary preparations went on simultaneously. It was also ensured that people from different parts of the bank were involved.

"When we kicked off about 100 people had put in at least three or four working weeks each in 1996," says Anders Lindqvist. "So it was a massive effort on the bank's part and not just something driven by a bunch of Internet people."

S-E-Banken's Internet bank was launched with a considerable advertising campaign and other marketing measures.

The message was, "We're opening 10,000 new branches". And it proved to be a considerable understatement. After only two months supplies of the special little box customers need to log in ran out and the bank had to order more in a hurry. After just a year, in December 1997, there were nearly 90,000 customers. The management then concluded the trial once and for all and raised the status of the Internet branch to a permanent operation. Organisationally, it is on a par with the other two channels of distribution, the normal branches and telephone bank, and forms part of Retail Business.

"There is no company today that doesn't say it gives priority to the Internet," says Dan Tavares. "But we show it both in word and deed by organising it as part of our normal business," he continues.

Start of a ketchup effect

The number of customers has continued to increase, by about 5–6,000 a month. In October 1998 nearly 200,000 had joined. Following the merger with Trygg-Hansa, this figure includes 30,000 who were previously with Tryggbanken. Together, the Internet customers constitute some 13 per cent of the bank's total of around 1.5 million private customers.

"It is also a matter of natural growth," says Dan Tavares. "We haven't needed to market the service very much. Instead, we have noticed considerable group pressure. Many people seem to reason: Why shouldn't I have it when everyone else has? What we are looking at can thus be the start of a ketchup effect."

But it is not only the great interest that has surprised SEB. The customers are also older and more active than expected. A study carried out in the spring of 1998 showed that 76 per cent of the Internet bank's customers were men and 24 per cent women. The great difference is explained by the fact that men still dominate on the Net. But according to Tavares the proportion of women is increasing.

Breakdown of customers by age, spring 1998

Age	%
18-24	16
25-29	19
30-35	20
36-45	21
46-60	21
>60	4

Source: SEB

Initially, the youngest age groups were also over-represented. But that is disappearing. The biggest growth today is among 30–60 year-olds, which is seen as a sign that Internet use is beginning to mature.

To speed up the process, the bank has reached a three-year agreement with SeniorNet Sweden, an association for promoting Internet use among people over the age of 55. Under the agreement, the bank is marketing SeniorNet's own computer package, including Internet access, by urging 100,000 of its older customers to buy it and learn how to use the Bank's Internet services.

Better customers

The typical Internet customer is a white-collar worker with an income some 40 per cent above the average for the bank's customers. And SEB's customers are already high up in the income statistics. The geographical spread is also great.

"There is no doubt that the Internet customers are among our better ones. We can also see it from the fact that they are transaction and investment intensive and do a lot of business."

Logging in has increased greatly with a record high of 40,000 customers in one day.[3] Divided between SEB's 260 branches that is equivalent to 150 visitors per day and branch!

[3] Up to October 1998.

Almost 30 per cent of all private customers pay their bills over the Net. One Internet user in five, or some 40,000 customers, takes advantage of the opportunity to buy and sell shares or units in a fund. At times, the Internet branch has accounted for nearly ten per cent of SEB's equity transactions.

As many as 50 per cent of the customers use the Internet bank at least once a week and 95 per cent at least once a month. Moreover, five per cent, particularly those engaged in active asset management, say they log in every day.

Can build up relations

"Thus half the customers have interaction with SEB 52 times a year," says Dan Tavares. "Apart from bringing in more transactions, it means that relations are strengthened as they are more often in touch with the bank than they were before," he states. "As opposed to what is often asserted, it shows that it *is* possible to build up customer relations on the Net. For us, it opens up new opportunities for doing so."

Many people do their banking business mainly on Sunday evenings, but also during normal banking hours.

The most common reason for using the Internet is that it is simple and convenient. It also provides a better overview and users get confirmation that payments are made in time. In that respect a bank on the Net is superior to a telephone bank.

"You can't compare. The telephone is great for occasional, quick items. But you can't offer too extensive a range of services. Therefore the development possibilities are also limited," Anders Lindqvist says.

SEB has used focus groups to help it in its Internet work. Both experienced users and customers who have never tried the Internet before have given their views. They have been invaluable.

"It is easy to be fascinated by the opportunities opened up by the technology. On the other hand, customers look at the basic functions and emphasize the simplicity. So we have consciously tried to keep the environment as uncluttered as possible and decided early on to avoid graphics that were too sophisticated," Lindqvist says.

Therefore the setup has been largely unchanged from the start. Several functions could be added. But thus far, SEB has refrained from doing so. One of the few exceptions is that Net customers can now also apply for, and be granted, loans against a guarantee.

Surveys show that customers are very satisfied with the Internet branch. "The banks usually score around 60–65 per cent on the customer-satisfaction index, which is low. But the last time we asked, 90 per cent of SEB's customers were satisfied. So there is no doubt the Internet venture has meant a great deal for our image and strengthened our role in the market," says Dan Tavares.

Profit-taking challenge

It has still not brought any manifest changes in the bank's other activities. SEB claims there have never been so many visitors to its branches as there are now. But as more and more transactions are carried out on the Net, the bank's procedures will be affected. And the number of calls to its telephone bank, Sesam Telefonbanken, has stagnated or even fallen.

"In theory, the Internet means lower costs both for the branches and other back-office functions," says Dan Tavares. "The thing is then to profit from it. It's a challenge in itself and that work still remains to be done."

However, at SEB they are convinced the physical branches have a future, but that there perhaps will not be as many of them as there are today.

"A young woman in one of the focus groups explained that even if she were to pay her bills via the Internet, she wanted a real bank manager to talk to if she needed a mortgage, for instance," says Anders Lindkvist. "We mustn't underestimate the value of physical representation, even if it isn't always for rational reasons."

It is clear that the role of the branches will change towards handling matters that require greater expertise, giving advice and selling insurance. That is one of the reasons why SEB bought the Trygg-Hansa insurance company.

"But I also think we'll see completely new products. Things are moving fast and all I'm certain of is that it won't be simply a matter of banking and insurance. There are also likely to be other roles for the banks," says Dan Tavares.

Meanwhile, the work of increasing Internet use continues. How many of the staff are involved SEB does not want to say, for competitive reasons. "But we've grown greatly and have 40 people working solely on the Internet and business development," Tavares continues.

Greater communication

In January 1998 a virtual community was also launched, a meeting place on the Net called *Forum för Placerare*, "Forum for Investors", aimed at those interested in shares and funds. Apart from news, information on market prices and advice from SEB's investment experts, members each have a home page from which they can monitor their equity portfolio and even have an alarm connected to warn them if market prices take off. It is also possible to chat with other members of the forum.

The project has been conducted on a trial basis with 10,000 customers and the outcome is said to be very good.

"There are many good suppliers of information on the Internet," says Dan Tavares. "But there is no one who has done what we have and integrated information and commerce." Tavares expects the virtual community to continue in some form after evaluation.

The idea behind the project is also to create loyalty through the social network built up with the customers. By allowing them to chat, they not only come closer to each other and the bank. SEB also gets an insight into what they like and dislike. In turn, that information can be used to further improve and develop customer relations.

Even though the Internet customers now carry out much of the work previously done by bank clerks, such as entering all information on payment orders and sending them off, they have so far not been rewarded financially for using the Net, except in equity transactions where they are offered a somewhat lower commission than they would have paid at an ordinary branch of the bank. However, it is not as low as that charged by some Internet brokers. Customers have streamed in nevertheless. However, SEB says it is not alien to the idea of differential pricing depending on whether the customer uses the Internet or the physical branches.

"If it is cheaper on the Internet, we'll share the saving with our customers," states Dan Tavares. "And there'll be changes in matters such as making payments and pricing unsecured loans," he continues. He can also conceive of other solutions. "Everyone speaks about price differentiation between different distribution channels. What they forget is that the Net makes it possible to have different prices in the same channel."

Possible partnerships

The load on the Internet branch is always greatest before the end of the month, when customers log in to pay their bills. It makes great demands on the capacity and accessibility of the system. By offering customers “happy hours”, for example, with some form of benefit, the traffic could be steered to other times when the load is not so high.

Dan Tavares also points to the possibility of partnerships with other companies to obtain more benefits for customers. Under one such scheme, in partnership with Tele2, new customers on the Net get a free three-month Internet subscription.

The Internet branch has also been available to corporate customers since September 1997. SEB was first to offer the service and by October 1998, i.e. a year later, some 12,000 companies had joined. Their number is increasing by 500–1,000 a month.

“Here too, the response has been better than expected,” says Tavares. “It can be compared with SEB-Vision, where companies can connect up directly to the bank’s computer system to do their business. It took SEB-Vision 15 years to get 15,000 users.”

World’s first Net currency trader

The possibility of developing new corporate services on the Internet is seen to be at least as great as for the private-customer market. One that SEB claims to be first in the world with is currency trading.

It is very much a niche product. The potential is estimated at 500 companies that buy and sell currencies all the time. The service is based on the same technology as the Internet branch. Companies sign an agreement with S-E-Banken and receive a security box for each person authorised to carry out transactions.

The currency dealer then logs onto the Net, selects a currency and date. The maximum amount is SEK 5 million and companies can trade in the 18 most common currencies. The transaction is confirmed immediately. Customers also have access to continuously updated exchange rates.

Normally, the customer phones the bank, which then sends or faxes a confirmation note that must be signed and returned. Both customer and bank save time and money by using the Net instead. Expectations are that the service will already be profitable in the first six months.

SEB’s ambition is to be Sweden’s leading bank for electronic transactions on the Internet. The commitment is thus great, in the Group management too. According to Dan Tavares, “There’s a phenomenal focus and pressure from the bank’s President and CEO, Lars Thunell. He’s very familiar with what is going on all the time. I also think that’s important if we’re to succeed.”

www.sebank.se

Shares better business than sex

1997 was a milestone for the Internet as a marketplace. For the first time in its brief history equity trading surpassed sex as its most profitable business. According to a study by Ernst & Young, sex was completely dominant in the three years before that.[1]

The possibility for private persons to act as their own stockbrokers by dealing in shares over the Net is undoubtedly one of the most successful services to date in the new marketplace. The Internet has democratised the financial world by opening up the playing field with easily accessible information previously reserved for major investors and institutional dealers.

- **It is convenient and quick.**
  Customers can log in straight from any computer, anywhere. They are not dependent on first contacting their bank or broker.
- **It gives greater accessibility.**
  Orders can be placed round the clock, every day of the year. Customers are notified as soon as a transaction has been made and their holdings are updated. They do not have to wait for contract notes and account statements to be sent out. The Internet lets private persons get the same news as professional brokers.
- **It is cheap.**
  As the customers do the work themselves without any other human involvement, the commission charged by the broker can be reduced.

Moreover, few things are so suited to e-commerce as shares and other financial services. They are known and standardised products for which price and quantity are the sole variables. Neither do they require any physical exchange of goods.

That is why, along with banking services, equity trading is increas-

[1] Vancouver Sun, June 4, 1998.

*E*trade was the US pioneer in equity trading on the Net. The company now aims at being a financial portal offering a number of other services – loans, insurance and credit cards.*

ingly called the killer application, the decisive application for the Internet to become a general and commercial medium.

But at the same time it involves a drastic change in conditions for traditional brokers. For over a century they have had more or less a monopoly on the trade in listed shares and other securities. Under cover of this, they have earned big money even on simple transactions and basic information about the market.

Combined with the Internet, deregulation of the financial markets in the past decade has created a completely new competitive situation.

Stockbroking not a business for the future

"Your entire industry will be on the Internet," IBM boss Lou Gerstner stated when he was one of the principal speakers at the American Security Industry Association's annual meeting in New Orleans in November 1997. "Not just the discounters – all of you," he declared.

This will have far-reaching consequences both for companies and individuals.

"Stock brokerage is not a business you want your children to go into," were Gerstner's parting words to the assembled brokers.[2]

So perhaps it is not surprising that a newcomer to the business, E*trade in Silicon Valley, was the first to offer equity trading on the Net, and not one of the established Wall Street brokerage houses.

Speaking at the Scandinavian Interactive Media Event in Stockholm in June 1998, Guy Knight, Vice-President of Charles Swab Europe, admitted that the Internet was not to be seen on his firm's radar screen three years ago.

In the 1970s Charles Schwab revolutionised the US financial market by introducing discount brokerage, including a phone service. But with trading on the Net, E*trade was the pioneer.

The present E*trade started in 1992 with the idea of offering electronic trading in equities to private persons via online services such as American Online and Compuserve. But it was not until 1996, when E*trade started its own Web service, that the business really got moving.[3] The company was also soon followed by a number of others, including Charles Schwab, which launched its service in December 1995.

Since then things have moved very fast. In just a few years a whole new industry of online brokers has been created in the United States. In the autumn of 1998 there were some 75 brokerage houses offering Internet trading and they had a total of nearly 4 million customers.

According to US investment bank Piper Jaffray, Internet trading accounted for 17 per cent of the retail market (private customers) in 1997. At the same time that volumes had increased by 60 per cent, commissions fell by an average of 54 per cent, or from 30–35 dollars to 10–15 dollars per transaction.[4]

25 per cent on the Net

Growth has continued since then and it was estimated that 25 per cent of retail equity trading would be on the Internet at the end of 1998.

---

2 "Wall Street Moving to the Net", Nov 6, 1997. Cnet news, *www.news.com*

3 For a presentation of E*trade see *www.etrade.com*

4 *www.piperjaffray.com*

E*trade has also been outdistanced, in particular by Charles Schwab, which is now biggest on the Net. The number of customers doubled in 1997 alone, totalling 1.6 million in May with an aggregate 116 billion dollars of assets. In all, Charles Schwab then had some 5 million customers with available assets of more than 400 billion dollars.[5]

Growth in the industry is rapid. Schwab believes that by the turn of the century 80–90 per cent of its transactions will be over the Net, as against 50 per cent in the first quarter of 1998. At the same time, the number of transactions is expected to increase from around 50,000 to 4 million a day![6]

According to Piper Jaffray's forecast, 14 million Americans will use the Internet for their equity trading in the year 2001. Meanwhile, revenue from commissions is expected to quadruple to 2.2 billion dollars. That would be equivalent to 60 per cent of the discount-brokerage market.

The speedy rise of Internet trading has also created anxiety among the traditional firms of brokers on Wall Street. John Steffens, Vice-President of Merrill Lynch, the biggest of them all in the US with getting on for 15,000 brokers and nine million accounts, has several times gone on the attack against what he calls the danger of buying and selling directly on the Internet without professional assistance.

"The do-it-yourself model of investing, centred on Internet trading, should be regarded as a serious threat to Americans' financial lives," said Steffens on one occasion.[7] He has also likened Internet trading to gambling at a casino in Las Vegas. "It's like betting on black or red," he said.[8]

John Steffens's criticism is aimed primarily at the fact that investors are tempted to trade too much and too often. But it is also impossible to ignore the fact that the new way of equity trading is a competitor to Merrill Lynch's traditional business.

Swedbank the Swedish pioneer

In Sweden, Internet trading was first introduced in the spring of 1996. Here it was an established brokerage house, Swedbank Fondkomis-

---

[5] *www.schwab.com*

[6] Financial Times, 18–19 April 1998, and Guy Knight.

[7] Merrill Says Online Trading is Bad for Investors, Wall Street Journal, September 23, 1998.

[8] Ibid.

sion, owned by what was then Första Sparbanken (now Föreningssparbanken), that took the initiative. That was in May 1996.

Three months later, in August, Öhman's Fondkommission followed by founding NordNet Securities. Until then Öhman's had only worked with institutional investors. So it was investing in a new market – private persons and small depositors.

Öhman's considerations and experience are described in detail in the section called "New thinking from the oldest broker". Later the same autumn Hagströmer & Qviberg and S-E-Banken started as well. The situation then remained as it was until May 1997, when Internet customers were estimated to total about 10,000.[9]

But since that time the number of Internet brokers has more than doubled. In October 1998 – more than two years after Swedbank's debut – there were eleven banks and brokerage firms providing Internet trading in Swedish equities.

They included Sweden's first two purely Internet brokers, who started in the spring of 1998, modelled on E*trade and others.

They are Avanza Fondkommission, with several defectors from NordNet and financed by Norwegian capital, and Teletrade, an entity within xTrade Solutions, which in turn is owned by the fund- and capital-asset management firm of Danielsson & Partners.[10]

Most Internet brokers in the world

Despite having more Internet brokers per inhabitant at the end of 1998 than the US or any other country,[11] still more were about to start up. Both MeritaNordbanken and Östgöta Enskilda Banken planned to begin equity trading as a supplement to their banking services on the Net. E*trade also planned to get started in the Nordic countries in 1999, with Sweden as its starting point. It is a joint Swedish-American project.

Judy Balint, head of E*trade International, believes there are still big growth opportunities for this market. E*trade had already reached agreements to set up shop in the UK, Germany and the new stockmarkets of eastern Europe.

---

9 *Glöm mäklarna – handla på nätet* ("Forget the brokers – trade on the Net"), *Veckans Affärer*, June 2, 1997.

10 *Skärmarnas krig* ("The war of the screens"), *Veckans Affärer*, May 18, 1998.

11 *Aktiespararen* 10, 1998.

It was also rumoured that Charles Schwab considered entering the Swedish market. In June 1998, Guy Knight of Charles Schwab Europe stated that the enormous opportunities offered by the Internet lie in the fact that it overrides geography. However, he did not want to comment on his company's plans for Europe. A start had been made in Britain.

According to the Economist, Sweden and Germany have gone farthest in Europe. That is probably also one of the reasons for the interest shown by foreign firms. There were a total of only six Internet brokers in the rest of the Nordic area in the spring of 1998, one in Denmark, two in Finland and three in Norway. The Swedish brokers are also in the technological front line. Trading is fully automated, as opposed to Britain for instance, where so far each order is handled manually even if it is sent over the Net.[12]

As opposed to the US, there are no statistics on the number of Swedish Internet customers. Estimates in the autumn of 1998 indicate between 50,000 and 100,000, with a reservation for the possibility of some double counting as there are customers who have accounts with several brokers.

Compared with the total number of shareholders in Sweden, the figure does not appear particularly high. According to the Swedish Association for Share Promotion, 4.1 million Swedes own shares, which means we have the biggest proportion of shareholders in the world.

But most of them have indirect ownership through funds or small, passive holdings. The number of active private persons with a somewhat larger portfolio is very much lower. And it is mainly these people who should be interested in, and have most to gain from, doing business on the Net.

New customers still coming in fast

"We usually estimate the number of active private persons to be between 200,000 and 500,000," says Ragnar Gustavi, Chief Executive of the Association for Share Promotion.

If we assume the majority of Internet customers belong to this group, it means that at least 25 per cent already use the Net. As in the US, continued rapid growth is forecast.

---

[12] Ibid.

"In three years' time, i.e. in the year 2001, I believe the Internet will account for 60 per cent of the retail market," says Per Nordlander, Managing Director of Avanza Fondkommission. Erik Saers, MD at Aktiespar Fondkommission, is almost as optimistic. He expects the figure to be 50 per cent by the turn of the century.

That the potential is great is also shown by a survey commissioned by the Association for Share Promotion and carried out in the spring of 1997 by Johan Carlsson and Thomas Scherp of Uppsala University. A third of the 130,000 Swedes who then owned shares valued at more than SEK 50,000, stated that they were interested in doing their business on the Net. Only 34 per cent were directly negative. The rest were uncertain, or considered they knew too little to have any opinion.[13]

Equity trading on the Internet was still new and relatively unknown when the survey was made. Since then, both knowledge and acceptance have increased. It is therefore likely that the proportion who are positive today is higher still.

Rich more willing to use the Net

The study also shows that interest is in proportion to the size of the shareholding, the bigger the portfolio, the greater the willingness to trade on the Net. This is confirmed by NordNet and other firms of brokers. Their customers belong largely to the most profitable, and therefore most attractive, category of private investors.

This would also appear to be understandable. Those who do a lot of business can save a lot of money by using the Net, while it is doubtful whether it is worth the trouble for those who only make the odd transaction each year.

As opposed to institutional investors, whose commission fees have long been negotiable, private persons have not had much to choose between. Despite competition in the market, commissions were previously very much alike at 0.45–0.65 per cent of the order value, with a minimum fee of SEK 200.

But no more. Internet trading has resulted in greater price differentiation and dramatically reduced transaction costs, even for small investors. There are price cuts of nearly 70–75 per cent and in some cases

[13] "Forget the brokers – trade on the Net", *Veckans Affärer*, June 2 1997.

even more. Aktiespar, Avanza and Teletrade led the way in 1998, charging a commission of 0.12 per cent. But it is possible to pay still less.

For transactions up to SEK 100,000, Teletrade has a fixed charge of SEK 85, equivalent at its lowest to a commission of 0.085 per cent. Previously, the same transaction would have cost SEK 450–650. The saving is 80–90 per cent.

Similarly, a NordNet client who wants to buy or sell say 10,000 Ericsson shares at a price of SEK 160 per share, now pays a flat fee of SEK 350 as against SEK 7,200 in the past. The saving for the client is SEK 6,850, or 95 per cent.

Loyalty conflict a barrier

But not all Internet brokers have chosen to compete on price. Hagströmer&Qviberg and Matteus take the same commission regardless of whether a transaction is on the Net or made the traditional way. They justify it by offering customers other added value instead. But it is probably also a question of priorities. H&Q, and above all Matteus, have found their niche with private persons. If they were to reduce their commission on the Internet, they would risk having their customers go there. The result would be fewer transactions and poorer profitability in their core business.

The banks are struggling with a similar problem. At present, a large part of their equity trading is done through their branches. It is a profitable business. To avoid conflict, S-E-Banken and Handelsbanken have chosen to go half way by reducing their commission somewhat, though not as much as the other Internet brokers.

The exceptions are Föreningssparbanken, which reduced its commission from 0.18 to 0.14 per cent from the autumn of 1998, and Skandiabanken, which takes 0.15 per cent with a minimum charge of SEK 50.

"We have no problems with loyalty here and at branches to consider. Therefore we can take a lower fee," says Lars Holmqvist, Marketing Manager at Skandiabanken.

Sweden was already among the countries with the lowest commission charges in the world. The Internet has squeezed them further, even though it has not yet left any visible traces in the brokerage houses' operations and profits. That is because households account for only a small part of the trade on the Stockholm Stock Exchange. It is the institutions which are overwhelmingly dominant with some 85 per cent of the turnover. Consequently, they are also the ones who generate the greatest revenue for the brokers.

Competition in the institutional market is certainly also very tough. The average rate of commission in the industry has fallen six years in succession.[14]

In 1996–97 alone, commission on institutional trading fell by 30 per cent according to Alfred Berg, one of the biggest brokerage houses on the Stockholm Exchange.[15] That is because of greater competition. The number of firms on the stockmarket has virtually doubled since the beginning of the 1990s to nearly 50, including a large number of foreign players.

What has made the equation balance so far is the greatly increased volume of business. It has multiplied several times during the 1990s. This has more than compensated the brokers for their lower commissions and the more crowded market. It also explains why the industry had a new record year in 1997.[16]

Tougher market climate can hit back

But this can change quickly. A tougher market climate with falling or stagnating turnover, would have a direct effect on profits. In such a situation Internet trading may have great significance at the margin. This applies particularly to brokerage firms with a considerable proportion of private persons among their customers.

According to estimates in the industry, the Internet already accounted for between 20 and 30 per cent of the equity trading of all private persons in Sweden in 1998.[17] This is on a par with, or even above, the United States.

But the Internet should not be seen solely as a threat. Ragnar Gustavii of the Association for Share Promotion believes it also works as a lubricant, making the market more efficient.

---

[14] *Aktiespararen* 1/98 and *Veckans Affärer*, May 18, 1998.

[15] *Alfred Berg vill synas i showen* ("Alfred Berg wants to be seen in the show"), *Veckans Affärer*, March 16, 1998.

[16] "War of the screens", *Veckans Affärer*, May 18, 1998.

[17] *Internet: Nätmäklare blir allt fler* ("Internet: more and more Net brokers"), *Dagens Nyheter*, September 9, 1998.

"What is interesting about the Internet is not primarily that it leads to lower prices, but that it attracts new categories of customers," he says. "It's all according to the theory of price elasticity. When prices fall those who are already active increase their turnover at the same time that new players are attracted. The result is to broaden the base for equity trading."

He goes on to say, "What we see both in Sweden and the US is that the Internet brokers attract new customers – women and immigrants – who were not active in the market before."

According to Gustavii, there are several explanations. Very few people in the Swedish financial world are not Swedes going back several generations. Many immigrants therefore feel uncertain, or quite simply badly treated, in contact with brokers. On the Internet they are not confronted by anyone. With regard to women, they act more efficiently. "They haven't the same need to have their ability confirmed in conversation with brokers," Gustavii believes.

Changed playing field

But it is perfectly clear that the Internet has changed the playing field for the brokers. Transactions, which until now have been one of their most important sources of income, have rapidly lost in value. They are on the way to becoming a staple product, a 'commodity'. As customers can carry them out themselves, they have lost their value as a means of competition. At least the simpler ones.

When larger blocks of shares are involved and an active effort is required to match seller and buyer, the broker is likely to go on fulfilling a function in the future. But then it is knowledge of where the parties are rather than the transaction itself that the customer is paying for.

Therefore if the traditional stockbrokers are to hold their own in competition with their Internet rivals, they must look higher up the value chain and develop other services they can charge for. Analysis and personal advice are examples. Simply acting as an intermediary is no longer sufficient. There must also be some form of added value.

Full-service brokers next

The problem is that the Internet brokers are quickly moving in the same direction. When prices cannot be forced down much more, they turn instead to increasing the number of functions and other services to attract new customers. These can be everything from real-time prices and business news to trading in options or interest-bearing securities. Several American firms, including Morgan Stanley, have also begun to put their analyses on the Net and customers can see them for a low fee, in some cases free of charge. Analyses were previously only for major clients.

"I'm convinced that within about a year we'll already be seeing full-service brokers on the Net," says Per Nordlander, Managing Director of Avanza Fondkommission. "They'll offer the same range of services as a traditional broker, but faster and better," he states.

The American E*trade goes a step further and wants to be a portal for all manner of financial services. To attract new customers, 90-95 per cent of the information on their revamped Web site will be available to anyone. E*trade also expects the proportion of equity trading to fall in future to the benefit of other revenues, such as advertising on the site. E*trade also has ambitions with regard to offering banking services. Customers can already obtain mortgages and insurance.

"The stockbrokers are terribly traditional and only look at their commission and net interest," says Sven Chetkovitch, Marketing Manager at Avanza Fondkommission. "But other sources of income can be developed," he continues. "At E*trade you can now buy airline tickets, for instance."

At the same time, each new service is an extra cost affecting the Internet brokers' profitability estimates. The battle for customers also drives up marketing costs. The average cost of capturing a new customer can be as much as 250 dollars or even more, according to US sources.[18] It means a lot of equity trading is needed if a customer is to be profitable.

Swedish Internet brokers are also likely to face external competition. E*trade makes no secret of its ambition to tie together its own national partners to be able to offer equity trading on several stock exchanges. This would enable a Swedish customer to buy shares in WM-data on the Stockholm Exchange just as easily as in Microsoft on Nasdaq in the US.

Swedish stockbrokers have similar plans. First among them was Nordiska Fondkommissionen's Net service, Aktie Direkt, and Teletrade, which have been offering trade in US shares since the autumn

[18] Net brokers threaten banks, CNET News, September 15 1998.

of 1998. But international players such as E*trade and Charles Schwab are likely to be able to offer more alternatives.

Both the traditional brokers and the new Internet brokers can thus expect continued stiffer competition and demands for adjustment to the new conditions on the stock market of the 21st century.

Swedish brokers on the Net

October 1998

Independent Stockbrokers

Name	**Aktiespar**	**Hagströmer & Qviberg**
Service	Aktiespar Online	HQ Online
URL	*www.aktiespar.com*	*www.hq.se*
Start	September 1997	November 1996
Commission	0.12[19]/0.14%	0.20% + SEK 50 per transaction
Minimum charge	SEK 48	None
	SEK 200 a year[20]	SEK 100 a month
Depositary requirement	None	None

Name	**Nordiska**	**Matteus**
Service	Aktie Direct	Matteus Online
URL	*www.aktiedirekt.com*	*www.matteus.se*
Start	December 1997	June 1997
Commission	0.15%	0.45-0.65%
Minimum charge	SEK 90	None
Acc. charge	None, but must have at least 5 transactions a year	None
Depositary requirement	SEK 50,000	SEK 200,000

Name	**Öhmans**
Service	Nordnet
URL	*www.nordnet.ohman.se*
Start	September 1996
Commission	0.15% or SEK 350 for business up to SEK 5m
Minimum charge	SEK 95
Acc. charge	None
Depositary requirement	SEK 10,000

[19] For members of the National Association of Shareholders.

[20] No charge if the commission exceeds SEK 2,000 a year.

Banks

Name	**Föreningsbanken**	**Handelsbanken**
Service	Nettrade	Handelsbanken
URL	*www.nettradeswedbank.se*	*www.handelsbanken.se*
Start	May 1996	December 1997
Commission	0.14%	0.3%
Minimum charge	SEK 95	SEK 150
Acc. charge	None	0.45% of Acc. value
Depositary requirement	SEK 20,000	None

Name	**S-E-Banken**	**Skandiabanken**
Service	Internet branch	Skandiabanken
URL	*www.sebank.se*	*www.skandiabanken.se*
Start	December 1996	June 1998
Commission	0.3%	0.15%
Minimum charge	SEK 100	SEK 50
Acc. charge	0.125% of value	None
Depositary requirement	None	None

Pure Internet brokers

Name	**Avcanza**	**xTrade Solutions**
Service	Avanza	Teletrade
URL	*www.avanza.com*	*www.telerade.nu*
Start	February 1998	May 1998
Commission	SEK 99 for each interval up to SEK 250,000	SEK 85 for transactions up to SEK 100,000, then 0.12%[3]
Minimum charge	SEK 99	SEK 85
Acc. charge	None	SEK 250. None if at least 3 transactions a year
Depositary requirement	SEK 10,000	SEK 25,000

Sources: Internet World, June 1998, Veckans Affärer no. 21, 1998 and information from the companies.

[21] Applies to shares quoted on the Stockholm Stock Exchange. For others there is a higher commission.

Stockbroker E. Öhman Jr.

New thinking from the oldest broker

Traditions are not always an obstacle to new ways of thought. That is shown by the E. Öhman Jr. brokerage house, the oldest independent firm on the Stockholm Stock Exchange, founded in 1906. Exactly 90 years later it became the first independent stockbroking firm in Sweden to trade on the Internet.

"That it was Öhman's is because I think there's visionary thinking in the house," says Madeleine Ekholm, previously head of NordNet Securities, the Öhman's entity which runs its Internet business.

But that is not the only explanation. Above all, Öhman's had nothing to lose and everything to gain.

New category of customers

Öhman's is a medium-sized stockbroking company with just over 100 employees. It is owned by the brothers Claes and Ulf Dinkelspiel and their families. The firm works exclusively with Swedish and foreign institutional investors. The business consists of trading in equities and other financial instruments, fund and asset management, analysis and corporate finance.

The Internet project is aimed at an entirely different client category – private persons and other small investors who want to buy and sell shares without the added expense of intermediaries.

Thus there is no risk of internal competition that could damage existing operations. On the contrary, the Internet offers an opportunity for the firm with its fine traditions to enter a new market where it was previously unrepresented. "Once that became clear, the decision was not so difficult to take," Madeleine Ekholm states.

NordNet opened on August 26, 1996 and became the second Internet broker in Sweden. First was Swedbank Fondkommission with its Nettrade service in May 1996.[1]

---

[1] Swedbank FK is now part of Föreningssparbanken, formerly Sparbanken Sweden.

No immediate success

No one then knew how much interest there was in equity trading on the Net. The target was set at 2,000 clients the first year. Instead, there were over 5,000. “Success was not immediate nonetheless,” says Madeleine Ekholm. “It took a few months until the press started writing before things took off.”

For a long time NordNet, which is not a separate legal entity but an entity within Öhman’s, lived on the word-of-mouth method plus publicity in the media. It was not until the summer of 1997 that Öhman’s actively started to market the service in advertisements and by other means.

Since then the clients have continued to flow in and it would seem that NordNet has managed to keep its lead.[2] At the beginning of October 1998, i.e. after two years, the total had passed 10,000.

Only new clients

“Moreover, every single one is new to Öhman’s,” emphasizes Peter Horwitz, who succeeded Madeleine Ekholm in February 1998 when she took maternity leave.

On the other hand, the same cannot always be said about the competitors’ Internet clients. In their case, it is often previous clients who have connected up to the Net. It usually takes several years for a new stockbroking firm to build up such a clientele. According to Öhman’s it is the banks which have lost out.

The overwhelming majority, or over 70 per cent of NordNet’s users, are men. Barely 20 per cent are women. The rest are companies and other legal persons. The imbalance is explained by the fact that women choose funds rather than equity trading to a greater extent. Neither do they have as many transactions and are not as quick in taking to a new medium like the Internet.

Growing interest among women

“But we notice from the number of enquiries that interest is growing among women,” says Horwitz. “For instance, we have a woman born in 1917 who does all her equity business on the Internet,” he adds. “A year ago the figure for women was only 10 per cent.”

---

[2] Not all stockbrokers reveal how many Internet clients they have. However, NordNet was judged to be the biggest broker on the Net in October 1998.

The average age of the clients is around 40. They are also well off. The average amount in an account is about SEK 250,000. Moreover they are considerably more active than the typical shareholder, which surprised Öhman's. There are an average of 1,500 transactions a day, but with peaks of over 2,500. In the first nine months of 1998, NordNet accounted for 2.4 per cent of all transactions on the Stockholm Stock Exchange, putting it in 14th place among the Exchange's most active members.[3] Up to October 1998, the record turnover was nearly SEK 200 million in one day.

"We know how clients traded before," says Madeleine Ekholm. "It may be that the medium itself stimulates people to do more business. If you place an order one day and connect up again the next to see how it has gone, you may take the opportunity to do another deal while you're at it."

It is perfectly clear that these are the most attractive private clients for the banks and brokers.

Many immigrants

"What is more, we are seeing a growing number of bigger clients who often go in and do business several times a day," Peter Horwitz states. "The size of the transactions is also increasing," he continues. "One client traded 20,000 Astra shares, for example."

Three out of ten clients are immigrants. They are greatly overrepresented in relation to Sweden's shareholders as a whole. Öhman's have no conclusive explanation. One reason may be the language. On the Internet they can remain anonymous and avoid the risk of misunderstanding and possible prejudice.

The great influx of clients has obliged NordNet to extend its systems step by step and increase the staff to cope with ever-growing volumes. 14 people work at NordNet Securities' own premises, which are side by side with Öhman's in one of the two PUB buildings in Stockholm. In addition, there are those working to maintain and develop the systems, which are provided by external suppliers.

Four people work on customer service and five act as SAX brokers. These receive and place orders in the system that clients phone in instead of using the Internet.

---

3 In terms of turnover, its market share was 0.54 per cent in the same period.

Intensive contact with clients

But the greater part of the business, more than 90 per cent, is done over the Net.

NordNet also has a full-time employee who answers e-mail. There are nearly 100 messages on a normal day. Often they contain questions and views of different kinds. But there are also many suggestions for improvements, which is very important for product development. NordNet tries to comply with the suggestions as much as possible. If anything dramatic happens on the market, or there's technical trouble, there can be much more e-mail.

The aim is to reply within two hours. Account applications must be dealt with the same day and people requesting application forms should have them the next day. If there's a delay, the risk is that the client will lose interest and turn elsewhere.

"The medium requires you to provide lightning fast service," says Madeleine Ekholm. "There are no loyalties on the Internet. The clients are with us for one reason only – that it's cheap and easy."

The underlying conditions thus differ drastically from traditional brokerage business, which to a great extent is based on personal and confidential broker-client relations. But there are no such things on the Net. Therefore customer loyalty has to be created by other means.

"Those who win the war, for that's what's going on, are those who succeed in creating a relationship with their clients and keeping a low price at the same time," Madeleine Ekholm states.

More free services

Many firms try to attract business by offering additional services free of charge, such as more up-to-date market prices, business news and analyses. This is a clear trend both in Sweden and abroad. When prices cannot be squeezed any further, all that remains is to offer added value.

NordNet is no exception. The services offered have increased and been improved in step with growing competition. Share prices are now updated once a minute, as against 30 minutes before. As the Stockholm Stock Exchange charges for the service, it means extra cost.

"Some products that we add will probably never be profitable, but they are necessary from the marketing point of view," says Peter Horwitz. "On the other hand, faster updating of prices *has* proved to be profitable," he adds. "It has led to greater activity and more transactions by clients."

The commission charged was previously 0.15 per cent or at least SEK 95 per transaction. But since May 1998, the maximum amount is SEK 350 up to SEK 5 million. Previously it would have cost up to SEK 7,500. But the minimum commission remains unchanged. For options contracts the commission is 0.95 per cent or a minimum of SEK 95. And there, Nordnet is the cheapest of all the Internet brokers.

The minimum deposit requirement has been reduced from SEK 30,000 to SEK 10,000. And clients can now trade not only in listed equities but also those on the SBI list, New Market and Innovation Market.

Trade in options, the possibility of pledging a share portfolio on the Internet, share index and price diagrams of all the securities traded on NordNet, were other new features in 1998. So was business news and company information in real time from Reuters, plus analyses from *Börsveckan*.

These are services NordNet has to pay for, but which are free to clients. Öhman's had not previously planned to include news, but as several of the new Internet brokers do so, it was forced to follow suit.

Another new service is NordNet Interest, which offers the opportunity to investing in interest-bearing securities as well as equities. Initial trading is in government bonds and treasury discount notes, but other securities will be added.

First to trade in bonds

This has made NordNet the first in Sweden to use an electronic trading system directly connected to the Stockholm Stock Exchange bond market, SOX.

Until now the money market has been reserved for institutional investors and companies with high liquidity. The lowest investment has been SEK 1 million. But owing to the Internet, it can now be made accessible to new groups. The minimum amount has been reduced to SEK 100,000 and the commission is SEK 45 for transactions up to SEK 1 million.

"I don't think this will be anything big for the ordinary private person," says Peter Horwitz. "But it is certain to attract wealthy private individuals and small companies that have excess liquidity to invest," he continues.

For Öhman's this is also a way of strengthening its position and improving profitability in the interest-bearing securities trade. The firm is one of the few players in the market which are independent of the banks. Most of the others have withdrawn as profitability in the industry has fallen in the 1990s.

Open to institutions

NordNet Interest is also open to institutional investors, who can choose whether to trade on the Internet or by fixed connection. It is a departure from the principle that NordNet should only turn towards private investors to avoid competition with the rest of Öhman's operations. It is justified by saying that institutions are necessary to boost the business.

"The truth is that they also want a good and efficient transaction system," says Peter Horwitz. "It means we are moving up in the market towards traditional big investors." Neither does he exclude the possibility of NordNet eventually becoming a company of its own to create greater room for manoeuvre and reduce the risk of conflicts of interest with Öhman's.

"The dividing line between low-price brokers and full-service brokers is being erased," he states. "Internet trading alone won't be a means of competition. Therefore it's necessary to increase the added value so that we can offer more qualitative services that we can also charge for."

The goal: a fully-fledged finance house

Peter Horwitz's vision is to make NordNet into a fully-fledged finance house. But that requires more products and services. Among other things, the possibility of starting to trade in Norwegian and other foreign equities is being investigated.

The same is true of the possibility of being able to buy and sell stakes in Swedish and foreign funds, and not only the ones managed by Öhman's.

With regard to analyses too, which are an important element in traditional stockbroking, new solutions are being considered. Peter Horwitz does not exclude some form of integration with Öhman's analysis business. But in that case the service will not be free.

"We are looking at different possible ways of packaging simpler products," he states. "The trick is to find a form of payment that the client will accept."

A bonus system or loyalty programme that favours faithful and active clients could be an alternative. It can be designed in different ways. One is for clients to collect commission money that grows according to the number of transactions they make. It can then be used as payment for analyses or other quality services. Another is to introduce various bonus limits where each new level gives different benefits, which in turn can perhaps act as a spur to more business. The purpose is for clients to feel appreciated and at the same time think it pays to be faithful to NordNet. It also helps to strengthen their loyalty.

Profitable clients should get more

"Our biggest client paid SEK 400,000 in commission in 1997 alone," says Madeleine Ekholm. "It's equivalent to SEK 1.2 million with a traditional stockbroker, which means he's made very many transactions. Consequently, such a customer is very profitable to us and should therefore also have some benefits compared to someone who contributes SEK 300."

Even if NordNet is likely to face tough competition in the future, it is perfectly clear that the Internet project has strengthened Öhman's position in the market. Not only because it has a large number of new clients and thus been able to increase its market share. NordNet has also supplied Öhman's with a channel for selling equities to private persons in market introductions. And that is a great asset when the Corporate Finance Department is negotiating such an assignment.

The successes have also helped increase interest in how the Internet can be used in other parts of the organisation. Since the autumn of 1997, analyses have been distributed to Öhman's institutional clients that way. The advantages are many. The clients receive them faster, while Öhman's saves on the expense. Moreover, distribution can be segmented so that certain clients get the analysis immediately, others not until some hours later and a third group perhaps the next day.

Öhman's does not report Nordnet's turnover and profit figures separately. But with a volume of some 1,500 transactions a day and the fact that the greater part is done at the minimum commission of SEK 95, annual revenue should be getting on for SEK 40 million. Reports say that current business is not running at a loss. On the other hand, there is some way to go before all the investment has been recovered. As much was invested in 1998 alone as in the first year when the system was constructed.

"Being up with the front runners costs money, both in technology and marketing," Madeleine Ekholm comments.

Recurring technical investment

That is also one of the differences between online and traditional stockbroking. When the system is in place, the results can be harvested. But the Internet requires constant new investment, partly to be able to grow and include new functions and products, partly because the technology is developing so fast. A new version of a Web browser forced NordNet to rewrite large parts of its software. And the original system must anyway be pensioned off after only two years.

"Therefore we need to get up to 20,000 clients to be really profitable," says Peter Horwitz, who was aiming at having passed 11,000 before the end of 1998. "I don't think everyone in the market has realised what will be demanded of them," he adds.

A price war could upset these calculations. But the risk is considered small, even if some of the newest competitors have cut their prices to just under the NordNet level. It is not possible to go much lower without getting compensation in some other way, e.g. by charging account or subscription fees, which competitors are already doing. Another alternative would be to start trading on one's own behalf, but that would increase the business risk.

In NordNet's view the threat is more likely to come from the banks if they decide to take up the gauntlet. So far they have not reduced their prices to the same extent. But if and when they do to avoid losing more customers, competition in the market can become much tougher. Their strength is that they can offer a greater ranger of products, with both banking services and equity trading.

"What indicates that they won't is that they have never done anything in the fund market despite greater competition from other players," says Madeleine Ekholm. "In addition, they must take their branches into account. How will they be affected if the Internet charge is slashed to a third? Today, share trading is a very profitable business for them."

www.nordnet.ohman.se

Electronic chains get grip on the book business

It may seem a historical paradox that a product based on an invention that is more than 500 years old and which is felt by many to be under threat from the new technology, has become one of the Net's best sellers. But the fact is that books are one of the most successful products in the new marketplace.

Part of the credit belongs to a 35-year-old American, Jeff Bezos. A former Wall Street stockbroker, he pioneered bookselling on the Internet when he started *amazon.com* in July 1995.

Three years later, in October 1998, it had grown into the third largest bookselling company in the world[1] with annual sales of 450 million US dollars.[2] By that date, the company had served over 3.1 million customers in 160 countries. Moreover, 60 per cent plus were said to be frequent buyers.

The forecasts also point to continued rapid growth. Amazon is expected to have sales of around 650 million dollars in 1999 and reach double that amount in the year 2001.[3] In part, this will be achieved by international expansion and new products.

First move in Europe

A first move has been made in Europe with acquisition of Britain's second largest Internet bookshop, Bookpages, and its German equivalent, Telebook, which also operates in Spain. The American concept, including its Web site design, has been introduced and the names changed to Amazon.

Amazon has also been selling music CDs since the summer of 1998. Apart from three million book titles available from what it calls the "Earth's Biggest Bookstore", it now has 125,000 CDs for sale. That is ten times as many as a well-stocked record store would normally have.

---

[1] Surf's Up, Forbes, July 27, 1998.

[2] Based on sales during the second quarter of 1998.

[3] Click here for wacky valuation, Business Week, July 20 1998.

Amazon.com calls itself the world's biggest bookstore. It has made a success of selling books on the Net, not least in the stockmarket. The company recently opened up in Europe.

Next in line are video films. Internet Movie Database has already been bought up. Analysts who monitor the company say computer software can eventually be included as well.

Its successes have made *amazon.com* the leading symbol of commerce on the Internet and the company is now a model for entrepreneurs far outside the book trade. The business magazine Forbes offers an explanation:

"It took Wal-Mart (the US's most successful chain of department stores – author's comment) twelve years and 78 stores to achieve annual sales of $168 million dollars. Amazon hit $168 million in its third year, all without opening a single store."[4]

To be sure, the company has yet to make a profit. It lost 30 million dollars in the first half of 1998, equivalent to 15 per cent of its sales of just over 200 million dollars. Neither do the analysts expect black figures before the year 2001.

[4] Surf's up, Forbes, July 27, 1998.

Valued more highly than the competition

But that has not reduced investor confidence. On the contrary. At the beginning of October 1998 Amazon had a market capitalisation of 5.1 billion dollars, which was 1.8 billion more than Barnes & Noble and Borders, USAs two biggest bookstores, put together.[5] And that was despite the fact that the two chains have a turnover 18 times as great as Amazon.

The market is obviously more optimistic about the future for *amazon.com* than Barnes & Noble, for instance, which has been in the business for more than 125 years.

There are several reasons why books have been such a success on the Internet:

- The book is a well-known and highly standardised product. Everyone knows what a book is.
- Books are relatively cheap and often bought on impulse.
- Distribution is cheap and simple. Books are not bulky, do not require any complicated packaging and can therefore be despatched by ordinary post.
- The book trade is highly fragmented, both in publishing and distribution. It is therefore difficult to get an overall grasp of what is on offer from the traditional channels of distribution.

There are not so many other consumer products that fit this description. Closest are the music CD and video film.

As a consequence, many others have followed in Amazon's footsteps. There are an estimated 14,000 Net booksellers in the world.[6] They range from specialists in a certain type of literature such as religion or computer books, to traditional bookstores which have realised that they too, must be on the Net to meet the new competitors. Amazon's biggest Internet competitor today is Barnes & Noble, which opened its Net store in the summer of 1997.

Borders, the second largest US chain, has now also entered the battle for Internet book buyers. But so far, Amazon seems not only to have kept its lead, but increased it.

---

[5] The figures were 2.5 billion dollars for Barnes & Noble and 1.9 billion for Borders.

[6] Financial Times, August 21, 1998.

30 Net booksellers in Sweden

In Sweden, there are now about 30 booksellers represented on the Net. But things are moving quickly and new ones are starting up all the time. Among the first was Science Fiction-bokhandeln, which also has a traditional outlet, and the family-owned Wettergrens, which has several stores in western Sweden.

But it was not until the end of 1997, when the first Net-only booksellers made their entrance on the Swedish market, that operations really gathered speed.

Among the newcomers is *bokhandeln.com*, which was started by the Bonniers media group and Pocketgrossisten, the paperback wholesalers. Bonniers has since sold its holding. Others are Adlibris, owned by five private persons with a background in the IT industry, Internetbokhandeln, a joint project between publishers, distributors, retail and antiquarian booksellers, and *bokus.com*.

Of these, Bokus stands out as the most ambitious, with the largest amount of Swedish and English literature on offer, more than 1.5 million titles, and the biggest financial backing. It is described in more detail in the next chapter: Bookstore with no books.

The new players have very much increased the pressure in the bookselling business. For the time being, it is true that the Net trade is modest in Sweden, with an estimated two per cent or less of the total retail sales of some SEK 4.6 billion.[7]

Large percentage non-fiction

But its share is increasing and in fields such as student literature and specialised non-fiction, the figure is already up to between 15 and 20 per cent of the market, according to Börje Fors, Managing Director of KF Media, which owns Sweden's biggest bookselling company, Akademibokhandeln.[8]

A large proportion of these books are in English, for which reason a considerable part of the sales has been taken over by foreign Net booksellers like Amazon and the British Internet Bookshop, whose prices are often substantially lower than in Sweden. There is no value

---

[7] *Svensk Bokhandel* 11/98, *www.svb.se*

[8] *Svensk Bokhandeln* 6/98, *www.svb.se*

added tax on books in Britain, for instance, and that alone gives a price advantage of 25 per cent.

And even if foreign literature constitutes a minor part of Swedish sales, this has had repercussions in the trade. Foreign competition has forced Akademibokhandeln, which sells more student literature than anyone else in the country, to lower its prices on the 200 most popular titles and concentrate more on books written in English.

In addition, KF Media has become the principal shareholder in its competitor, Bokus. When the deal was announced in March 1998, the reason given was that it is necessary to climb aboard when a new channel for selling books is being built up.

A further structural move came four months later, in July 1998, when KF Media bought Boktjänst, Sweden's third largest bookselling company. As with Akademibokhandeln, Boktjänst is big in student literature and has extensive sales to schools and libraries. It is likely that this deal too, was conditioned by changes in the market.

Attention was also paid to the new competition in an official enquiry into the current situation of the book, *Boken ITiden* (SoU 1997:141). Anna-Greta Lejon, who carried out the enquiry, stated:

"The increase in Internet sales from abroad is a threat to the book market in Sweden. Maintenance of national tax rates that differ substantially from those abroad can mean greater Internet sales. There is a risk that the bookstore will function as a point of display for foreign books that customers buy from abroad via the Internet." She urged the Government to set up an enquiry into the question of VAT.[9]

Structural changes nothing new

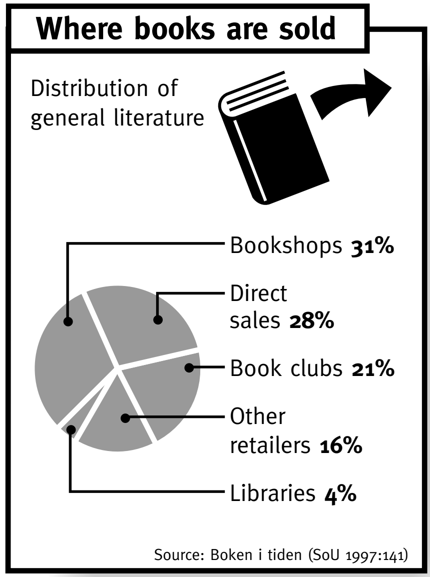
As already stated, this applies to only a minor part of the Swedish book market. If the Internet were to take 10-15 per cent of the sales of general Swedish literature as well (fiction, non-fiction and children's books), the consequences are likely to be far more serious.

Structural changes are nothing new. When book prices were allowed to vary, the bookshops lost the sole right to sell books. It opened the way for competition from the publishers' book clubs, which expanded greatly particularly in the 1970s, but also from other retailers such as department stores and supermarkets, which began increasingly to sell books in the past decade.

---

[9] Page 14.

Today, the bookstores account for only 40 per cent of sales. Book clubs have 22 per cent, Pocket-grossisten and other retailers 13 per cent, and department stores nearly 10 per cent. The remainder is divided between direct sales, foreign sales and libraries.[10] This can be compared with Denmark, for example, where booksellers still have getting on for 75 per cent of sales because the Danes have kept to the fixed-price system.



The bookshops now account for only a small part of the distribution. Other channels dominate. The Internet has not yet broken into the statistics, but it is only a matter of time.

But even if the traditional book trade has lost market shares, the number of outlets, large and small, has remained constant in the past 20 years at around 400, including specialist booksellers.

But most are small. A third have a turnover of less than SEK 1 million and 60 per cent 3 million or less. Only a handful have annual sales of more than SEK 25 million.

Very poor profitability

Profitability is also weak, not to say wretched, according to a survey carried out for *Boken ITiden*. A third of the companies ran at a loss in 1996 and another third had a profit margin between nought and two per cent. Only one bookseller in ten had a margin of seven per cent or more.

The enquiry also states that a bookstore with a turnover of less than SEK two million is difficult to run on business principles. The figures simply do not add up unless the owners inject capital or work for nothing.

So it is no surprise that many are worried about competition from the Internet. As the Net booksellers do not have the same costs for

[10] *Boken ITiden* (SoU 1997:141) page 98.

premises and staff and also do not have to stock the books they sell, which is a very expensive item in the trade, they can also squeeze prices. And greater price competition would probably see several bookstores in difficulty and lead to extensive closures. Those at least are some of the fears put forward in discussions on the subject.

They also seem to have influenced Anna-Greta Lejon. She suggests that it should be possible to depart from the principle of free price-setting in section six of the Competition Act by making an exception for the "production, distribution and sale of books". If this were done – and the proposal has met strong criticism in the business – it could slow down the Net-sellers' advance.

But even if price is an important factor, perhaps more important than in the traditional trade as it is easier for customers to compare prices, Net dealers also have a number of other competitive advantages.

Range of titles more important than price

When Jeff Bezos ranks the order of Amazon's strengths, low prices are placed only third. Both the range of titles and accessibility are considered to carry greater weight. Swedish Internet booksellers make the same assessment.

Neither is it certain that it is always cheaper to buy through the Net. An OECD study of the price of books, CDs and software in the US reached the conclusion that there was no obvious difference in comparison with traditional channels of distribution.[11]

As the table shows, Net dealers all charge more for the latest novel (*Brandvägg* "Firewall") by popular Swedish crime writer Henning Mankell, than a number of Stockholm bookshops. What adds to the expense is the cost of despatching the books. Mankell is certainly used as a cut-price attraction by many booksellers. A less popular author may have given a different result.

Net booksellers most expensive

On the other hand, the traditional outlets fare badly when it comes to the number of titles on offer. A medium-sized Swedish bookshop has a maximum of 7–10,000 titles in stock, while the very biggest such as

[11] Electronic Commerce: Prices and Consumers' Issues for three products: Books, Compact Disks and Software, DSTI/ICCP/IE(98)4/Final, *www.oecd.org*

Akademibokhandeln and Hedengrens in Stockholm have some 100,000. The Net bookstores have a searchable supply that is usually many times greater. Thus *bokus.com*'s database contains 15 times as many books as Akademibokhandeln can offer.

Henning Mankell: *Brandvägg*			
		SEK	
	Price	**Carriage**	**Total**
Bokus	199	39	238
Adlibris	189	39	228
Internetbokhandeln	199	28	227
Kihlstens Bokhandel, Högdalen	223	–	223
Åhléns, Stockholm	219	–	219
Akademibokhandeln, Stockholm	199	–	199
Fruängens Bokhandel	189	–	189
Prices in July 1998.			

Many advantages

According to observers in the US, the ability to provide much more information about books is another great advantage Internet sellers have over the traditional trade. And it is this information which creates demand.

In addition, the Internet sellers are accessible twenty-four hours a day all year round, no matter where the customer happens to be. All that is needed is a computer with access to the Internet. This is of great importance, particularly to those who live in places where there is no proper bookstore. It applies to a large part of our country.

Of Sweden's 289 municipalities, 57 have no bookseller at all. In a further 20, supermarkets are the only outlet.[12] Thanks to the Internet, they now have access to the same supply and service as those living in more fortunate areas. This demonstrates perfectly clearly the democratising ability of the Net.

The future of the traditional bookstore is closely associated with its

[12] *Boken ITiden* (SoU 1997:141) page 141.

built-in possibilities for renewal and development. Those who are simply satisfied with acting as an intermediary between publisher and customer without adding any value are likely to have a tough time. In that respect, the Internet dealers are both more efficient and creative. Neither is getting into a price war likely to be a practicable way forward.

Service must be developed

Instead, it is necessary to develop those aspects of traditional bookselling that have an advantage – service and advice, pleasant company, the possibility of displaying books attractively. In brief, making the store more attractive to the customer.

A large proportion of book sales is spontaneous and in that respect the bookseller has better prospects of creating conditions for impulse buying than the Net stores. Human contact in making a purchase is irreplaceable.

There are also special occasions, such as the day before Christmas Eve, when the Net booksellers will never have a chance of competing.

Some traditional booksellers have understood this by making use of the Net dealers' logistics system to get hold of books quickly, for instance. It means they too – and their customers – can benefit from the chains of electronic bookstores.

Bokus

Bookstore with no books

They do not own a single book. They have no store other than the one on the Net. They were not even first. Yet they have attracted an enormous amount of attention and even been depicted as a threat to reading in Sweden.

But Jerker Nilsson, Managing Director of Bokus, Sweden's largest virtual bookshop, is not worried. "The overall market for books will increase because pricing is changing," he states. "Moreover, many

Bokus.com is Sweden's answer to amazon.com, with 1.6 million titles in English and Swedish. The company is in the process of opening up in the rest of the Nordic area. The first step was taken in Finland in the autumn of 1998 and this was quickly followed in Denmark.

municipalities have no bookstore today. Everyone can have access to books through us no matter where they live. We are noticing it already. We have a disproportionate number of customers in small communities in the interior of northern Sweden and on the Baltic island of Gotland, for instance."

But it is no wonder the establishment is worried. In the US, books have become a big seller on the Net, especially through *amazon.com*. And Bokus seems to have established itself as one of Sweden's biggest booksellers in only its first year.

Growing faster than Amazon

"If you compare us with how far *amazon.com* had got in the same time, we are bigger," says Jerker Nilsson with satisfaction. "Not only in relative, but absolute terms," he goes on. "What is more, we have a larger percentage of the Swedish book market than they have of the American."

The ideas behind the two are very similar: a huge range of titles, low prices and fast delivery. The same applies to their use of modern technology allied to advanced logistics. The Internet is a necessary precondition. Extensive division of labour by outsourcing various functions to specialist companies, is another. On the other hand they have a different focus. Amazon aims at all types of book-buyers at the same time, while Bokus has chosen to focus on the professional market, at least initially. In particular, Sweden's 350,000 students in higher education.

Price-sensitive big consumers

"Students are big book consumers," Nilsson points out. "The market for new academic literature is worth about SEK 700 million," he continues. "They need special literature and they are price-sensitive. Also, 99 per cent of them have access to the Internet, which is an important factor. And many of the new, small institutes of higher education don't have a local, well-stocked bookshop."

The idea of starting a bookshop on the Internet came to Kajsa Leander and Ernst Malmsten in 1996. They had previously run a publishing house, LeanderMalmsten in the university city of Lund. As students, they reacted to what they considered to be the high price of books. Comparisons showed that English course books were more expensive in Sweden than in Denmark, Norway, Germany and France, for example.

Having presented and refined their idea together with financier Dag Tigerschiöld[1] and others, Bokus was formally founded in April 1997. Jerker Nilsson, who was Marketing Manager at the Swedish Library Service and before that the Studentlitteratur publishing house, was recruited as MD. Two consortia with private capital, one led by Dag Tigerschiöld, the second by Gert Blomén of the Scandinavian Merchant Group, guaranteed the financial backing. No one wants to say how much money was involved, only that it was "rather many millions"[2].

Intensive work followed in the spring and summer of 1997 in building up the organisation, reaching agreements with suppliers and collaborators in Sweden and abroad and constructing the IT systems. Everything had to be ready for the start of the new academic year in August.

"As we saw it, we had to hurry," says Jerker Nilsson. "Otherwise there was a risk that someone else would get in first. We also wanted to be up and running from the start of term when most students make their first purchases. It would give us firmer ground to stand on than if we got going later in the autumn."

Growing volumes

Bokus opened for business soon after twelve o'clock on August 18, 1997. The first order came after only one minute. They then continued to stream in and were up to between 1,000 and 2,000 a day in the spring of 1998. Sales totalled nearly SEK 30 million in the less than five months that remained of 1997. The forecast for 1998 was at least SEK 100 million[3]. It is also what the management aimed at in the short term[4]. It makes Bokus the dominant Net bookstore in Sweden with a market share of an estimated 70 per cent.[5]

According to Jerker Nilsson, the customer records contain nearly 80,000 names and are growing every week. Bokus's competitive ad-

---

[1] Dag Tigerschiöld also has a stake in Axis Communication, see page 127.

[2] According to *Svensk Bokhandel* (*www.svb.se*) in March 1998, the project had cost SEK 15 million up to then and the expectation is that it will cost 40-50 million to reach profitability.

[3] *Resumé* no. 23, 1998.

[4] *Finanstidningen* Nov 11, 1997.

vantage is the enormous range it can offer in combination with low prices. There are some 1.6 million titles, which makes it far and away Sweden's 'best-stocked' bookseller. There are over a million English titles from some 30,000 British and 30,000 US publishers. The rest is Swedish literature.

Everything in the database

A good bookstore stocks perhaps 50,000 titles and the country's biggest, Akademibokhandeln and Hedengrens in Stockholm, twice as many. The difference is that Bokus does not keep any books in stock. The company's main asset is its own book database, which in turn acquires information from several databases in Sweden, Britain and the US. Information is also obtained straight from publishing houses. The database is updated every week or every other week depending on which country the books come from. But the ambition is to shorten the time and preferably update daily. This would reduce the risk of a book being sold out. To make it easier for students, Bokus also publishes about a thousand reading lists on the Net from courses at institutions of higher education around the country.

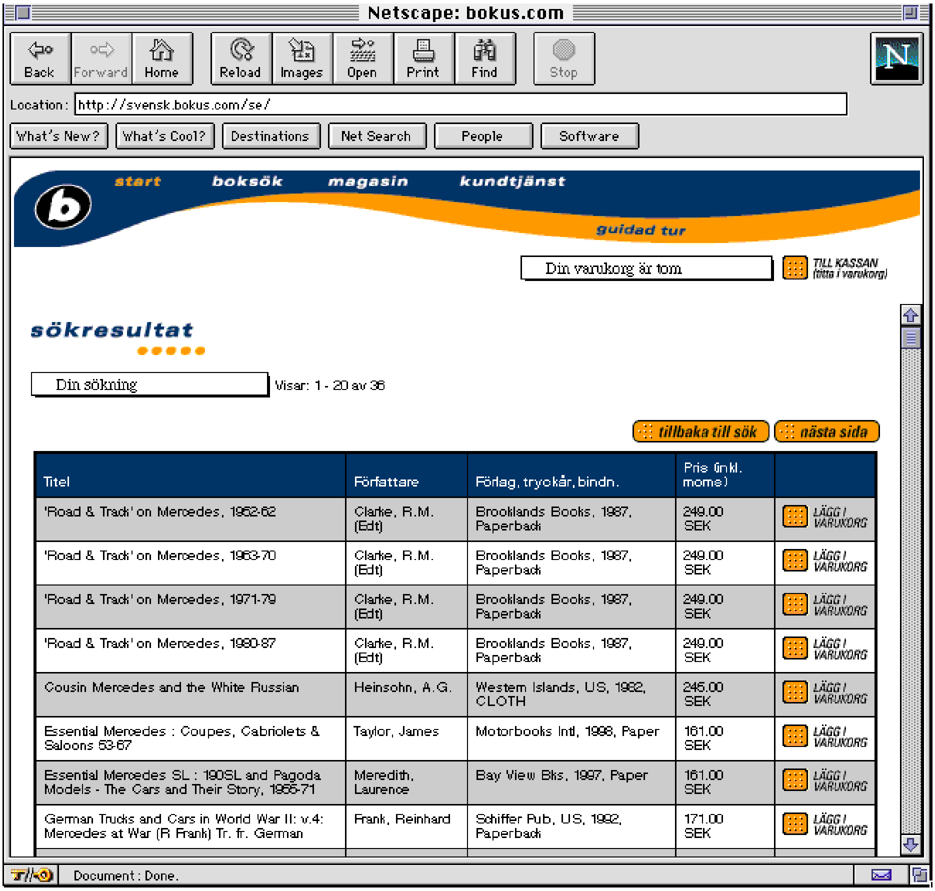
The company estimates that its prices on the broad range of Swedish titles are on average 10-15 per cent below those in the traditional book trade. The difference is very much greater on special literature and books published abroad, sometimes over 100 per cent.

Jerker Nilsson says lower costs make it possible. No capital is tied up in stocking books and in retail premises. Moreover, all books have a buyer, so the company avoids returns or being left with unsold copies, which is otherwise a major problem in the traditional trade. To qualify for discounts, booksellers are tempted to order large quantities that cannot always be sold.

Less needed to cover overheads

Of course, Bokus has expenses for staff and computer systems. Distribution and marketing are also major items. But the business does not require the same amount to cover overheads as traditional booksellers do. The gross margin in the trade is around 40-45 per cent. Bokus manages on just over half that figure and still has a higher net margin – two per cent as opposed to one, according to Jerker Nilsson.

"It's because we apply a classic high-volume – low-margin strat-



It is the huge range of titles and accessibility rather than price that sells books on the Internet. Which other bookseller could offer some 30 volumes on Mercedes cars, for instance?

egy," he states. There are large economies of scale in carriage, but also in purchasing. How much we earn or how big a contribution to costs we have initially is not so important. The important thing for us is growth with a capital 'G' as our margin increases with greater volume. We have the capacity to triple or even quintuple our turnover."

Amazon works on the same model, but is still not profitable despite phenomenal growth. The explanation is that competition is much tougher and margins lower in the US.

"It's sufficient for us to sell for SEK 8 million a month to cover our costs and we're doing that now," Nilsson says.

Fast distribution is also an important part of the concept. Bokus promises delivery within five days and that applies to British and American books too. In the normal book trade it can take several weeks to get books from abroad. This is very demanding on the logistics, which have also been the most difficult part to solve. Responsibility lies with UPS, the world's biggest private distribution company, and Posten Logistik OLC, which specialises in external logistics.

Extensive logistics

When orders come in they are forwarded for immediate despatch to one of the company's principal suppliers, or perhaps to a publisher via Bokus's purchasing offices in Britain and the US. UPS collects the packages and flies them express to Kastrup airport in Copenhagen via Cologne in Germany. From Britain it takes twelve hours and from the US two days. Costs are reduced by sending the books in large packages rather than one at a time as Amazon is forced to do. From Kastrup they continue their journey by road to Posten Logistik OLC in Arlöv outside Malmö. Posten Logistik had to invest in its facility there to cope with the work. The books are repacked and addressed before being sent to customers.

Payment is against invoice. The terms for private persons are ten days and for companies and other organisations 30 days. Invoicing is also handled by an external source, Posten ReskontraService, which is part of the Postal Giro system. According to Jerker Nilsson it works excellently. "Naturally, we've had bad debts, but they are very small," he states. "When it comes to payment, Swedes are very honest."

Outsourcing as strategy

A number of other firms collaborate in the virtual organisation. Responsibility for the technology rests with an Internet company, Netch Technologies in Lund, which also built NK-Hallen's Net food store, and Sigma Exallon Information, which is a database specialist. Graphic design is by the British Me Company, which has also been used by Coca Cola, Nike and Nintendo.

"Our outsourcing strategy is simple," Nilsson says. "Our job is business development and marketing. What we don't need in our core business we farm out to others."

The company's own business employs nearly 40 people, 15 of them full-time. The others are student part-timers. More than half work on customer service. Bokus has its own Call Centre in Lund with 20 employees. It is open 24 hours a day, all year round. Customers can also use a free phone to place orders. So access to the Internet is not necessary. If the lines are overloaded, calls are passed on to a telemarketing company, Bite, which provides backup. But Bokus's ambition is to deal with customer contacts itself as far as possible.

Own call centre

Selling was not the primary reason for setting up the Bokus Call Centre. Its main task is to get customers' views on what is good or bad and carry out regular market surveys. "We don't earn any money on the Call Centre today," Nilsson points out. "But it's part of the work of building up quality and creating customer confidence. We also get a lot of feedback on what we are doing," he adds.

Bokus also attaches great importance to taking care of its customers. Every order is confirmed by e-mail within three days. There is a further message when the book is sent. If delivery is delayed for some reason, or if the title ordered has been sold out by the publisher, the customer is informed of that too.

"If you get an e-mail saying we're very sorry but we can't obtain the book, you may get irritated, but not tremendously so," says Nilsson. "But if 14 days go by and you haven't heard a word, you get really angry. Therefore it's extremely important to communicate with your customers. Loyalty is an unknown concept on the Net. If we make a mess of it, customers will disappear to a competitor."

Communications on the Net

Communications within the company are to a large extent via the Internet. The internal computer system is also Web-based and connected to the public online shopping system. It means that staff in London and New York only need a personal computer with Internet access to be able to work.

Foreign literature forms the greater part of Bokus's sales. That is because so many textbooks are in English. The company competes primarily with Akademibokhandeln and Boktjänst, both of which are big in student literature, and other major bookstores with large foreign departments.

To some extent *amazon.com* and the British Internet Bookshop are competitors too. The entry of Net booksellers has also affected pricing in the trade. Akademibokhandeln has responded by cutting the price of the 200 most popular course books and increasing its stock of English titles.

Professional market dominant

So far, Bokus's marketing has focussed on students and the professional market, i.e. companies, organisations, libraries and other institutions. They each account for some 40 per cent of total sales.

The remaining 20 per cent goes to the consumer market. However, the ambition is to increase the proportion and a first advertising campaign aimed at broad target groups was started in the spring and summer of 1998.

"People have two roles," Jerker Nilsson states. "At work we need one type of book, privately another. If we can capture them professionally, we should have a good chance of winning them privately as well. There are many firms selling Swedish books on the Net. But we are the only one that has the whole range of Swedish and English literature."

The number of proprietors was also increased in the spring of 1998 when KF Media, part of the Swedish Cooperative Union and Wholesale Society, became the largest stakeholder with 45 per cent of the shares. This was done in conjunction with a new issue that gave Bokus a capital injection of SEK 30 million. KF Media includes Bokus's competitor Akademibokhandeln. But according to the parties themselves, the intention is to run both businesses separately, though there could be some collaboration e.g. in purchasing.

Expansion in the Nordic area

The new capital will be used to develop Bokus still further. Discussions are underway on extending the range of items on offer to cover CDs and videofilms etc, like Amazon. In that case Bokus would compete directly with Boxman, the leading Swedish Net dealer in the field.

Bokus also intends growing internationally. A first step was taken with the opening of *bokus.com* in Finland in August 1998, in good time for the company's first anniversary. "After a year in Sweden it's a natural step to go for international expansion," says Jerker Nilsson. "The potential for Internet commerce in Finland is great. The Finns are the most Internet-connected people in the world.” And now Bokus has opened up in Denmark too.

Bokus’s success, which was rewarded with the Scandinavian Interactive Media Event’s main prize in June 1998, results from a combination of purposeful business strategy and substantial resources.

“We have succeeded because it was possible for us to start at a sufficiently high level, with a lot of people and a lot of money,” Jerker Nilsson states. “Anyone can simply put book-distributor Seelig’s database on the Net for SEK 100,000. But that’s not enough. You’ve got to offer something more. Apart from general Swedish literature, we have the whole range of British and American literature. Therefore it’s also more difficult to copy us.”

www.bokus.com

Revolution in the car showroom

Peter Ellis, a pioneer in selling cars on the Internet, does not mince his words when he calls the present system of distribution the most inefficient created by man.

After more than 30 years as an ordinary car dealer he should know what he is talking about. At most, he owned 16 retail outlets in California and Arizona and for a time was the biggest Chrysler and Jeep dealer in the US. But the recession at the beginning of the 1990's cost him dear. Sales slumped and in 1994 he was finally forced into bankruptcy.

Disappointed with the traditional manufacturer-retailer-customer system of selling, which was expensive and resulted in many dissatisfied customers, Ellis began to investigate alternatives. His conclusion was that customers want control over the buying process and to avoid having persistent salesmen hanging over them.

Better and more customer-friendly

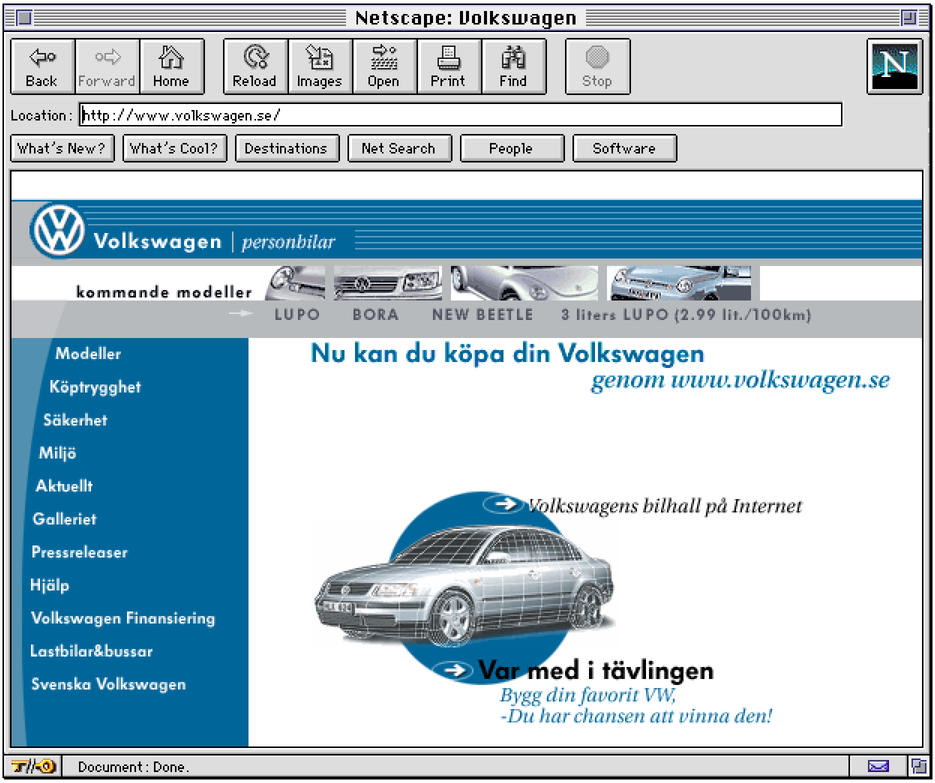
Convinced the Internet would offer a better and more customer-friendly alternative, he launched Auto-By-Tel in 1995, later changing the name to *autobytel.com*.

Today, *autobytel.com* is the biggest Internet-based marketplace in the US for new and used cars as well as related items such as finance, service and insurance.

The company will have received two million enquiries about cars in 1998 and arranges sales worth 5 billion dollars a year.

Dun & Bradstreet has ranked it as the country's fourth fastest-growing new small business. It was also recently named "king of the online car-buying sites" by New Media Magazine, in competition with AutoWeb, Microsoft's Carpoint and CUC's AutoVantage, all of which offer similar services on the US market.

Now the formula is being introduced internationally as well. Britain and Scandinavia are first in line. In Scandinavia, a start will be



In October 1998, Volkswagen Sweden became the first established dealer to sell new cars on the Net.

made in 1999 on the initiative of Sweden's biggest dealer, Bilia. After that it will be the turn of France, Japan and possibly also South America.

Ellis says it is thanks to the Internet that he has been able to realise his dream of changing the buying process and creating a system that favours the customer. He can count GE Capital, the American International Group, Britain's Inchcape Motors and Bilia among *autobytel.com*'s stakeholders. Bilia has put SEK 40 million into the US parent company.

Easier to get information

People would have laughed at the idea of buying a car on the Net only a few years ago. Most are still doubtful when confronted with the possibility for the first time.

You do not buy a car every day and above all, not without seeing it, examining it and taking it for a trial run. There is a big difference between cars and books or computer software, where you know what you are getting and which does not cost so much. The usual objection to cars is that they are expensive and therefore every purchase requires careful comparison and consideration.

But it is for these very reasons that the Net has become so popular with many car buyers. The more tiring and demanding it is to buy a product in the physical world, the greater the likelihood that the customer will turn to an online alternative.

Cars have a high information content and a long buying process. Thanks to the Internet, customers avoid the bother of driving round to different retailers to find out what is available and on what terms. Instead, they get the information on the Net, go to the dealer who seems to be best and then make their purchase.

It not only saves a lot of time, but also simplifies the decision process. The number of cars on offer is very much greater. Customers get a better overview of the market as they can look at and compare several dealers. Moreover, they have access to a lot of other information such as tests, technical specifications and cost estimates, that are otherwise difficult to find. So it is easier to decide.

That is what the new Internet-based marketplaces base their business concept on – do away with many of the expensive and unpleasant transaction costs in buying a car. Their ambition is to collect all the information a potential car buyer can possibly want in one place.

All makes represented

And so all makes are represented at *autobytel.com* and not just one or two as at traditional car dealers. When customers have found and decided on a new or used car, they send in an enquiry via the Net. It is passed on to one of the accredited *autobytel.com* retailers, who are contractually bound to contact the customer within 24 hours to offer a competitive, lowest price.

Peter Ellis emphasizes that customers thus avoid all the wrangling and bargaining that so many of them find hard and unpleasant work. A three-month or 5,000 km warranty is given on used cars plus a money-back guarantee if the buyer changes his mind within 72 hours. Customers can also apply for finance and insurance on the Internet.

Prices tend to be 5-10 per cent lower than in the rest of the trade as sales costs are lower. Peter Ellis explains that the cost of marketing is only a tenth of what it would normally be. Autobytel salespeople are also considerably more productive. They can sell up to 30-35 cars a month as opposed to an average of nine for US car dealers. So even with lower prices they can earn more on each sale.

Estimates show that transaction costs can be cut by up to 75 per cent.

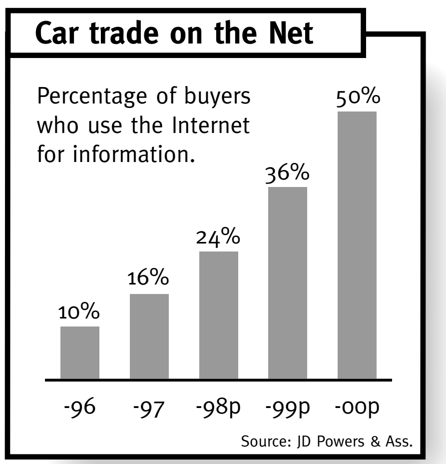
Some 2,700 retailers are now connected to *autobytel.com*, covering virtually the entire US market. They are traditional dealers who pay to be in the system. Apart from a fixed charge they also pay a certain amount for each deal. That is Autobytel's main source of revenue, but it also receives commission on insurance policies and loans.

To be accredited, a retailer must meet a number of conditions, open an Autobytel department, assign particular members of the staff to it and undertake to deal with customers in a given manner. Instead of commission, the sales staff receive a fixed salary plus bonus.

Higher sales an incentive

The main incentives for car dealers are higher sales (and there are examples where *autobytel.com* is providing half the business), lower costs and more satisfied customers.

Peter Ellis points out with some satisfaction that 34 per cent of the enquiries lead to a sale within 48 hours, as opposed to 20 per cent in the ordinary trade. He also says the electronic marketplaces have already affected pricing in the industry, claiming that e-mail comes in every day from people who say they have been to their dealer, told him they've been in touch with Autobytel and immediately got a lower price.



More and more customers will use the Internet to acquire information before buying a car. US analysts JD Powers & Ass. estimate that one in two will do so in the year 2000.

According to analysts JD Powers, 10 per cent of US car buyers used the Internet in 1996 to find information. In 1997 the figure had risen to 16 per cent and it is expected to exceed 50 per cent in the year 2000. The Internet has thus become a powerful force in the car trade.

That was also the message given by Chrysler's CEO Robert Eaton when he addressed the 1998 annual meeting of the National Automobile Dealers' Association. "The whole retail process, which always has lots of murky, hidden areas, is going to become totally transparent," he stated. "The customer is going to grab control of the process and we're all going to salute smartly and do what the customer tells us if we want to stay in business," he went on.[1]

But *autobytel.com* and the other online car-buying services are not the only ones to have realised the Internet is revolutionising the trade. In Sweden there are several Web services where manufacturers, individual retailers, media concerns, telecommunications companies and trade associations publish information and advertisements for new and used vehicles.

International attention

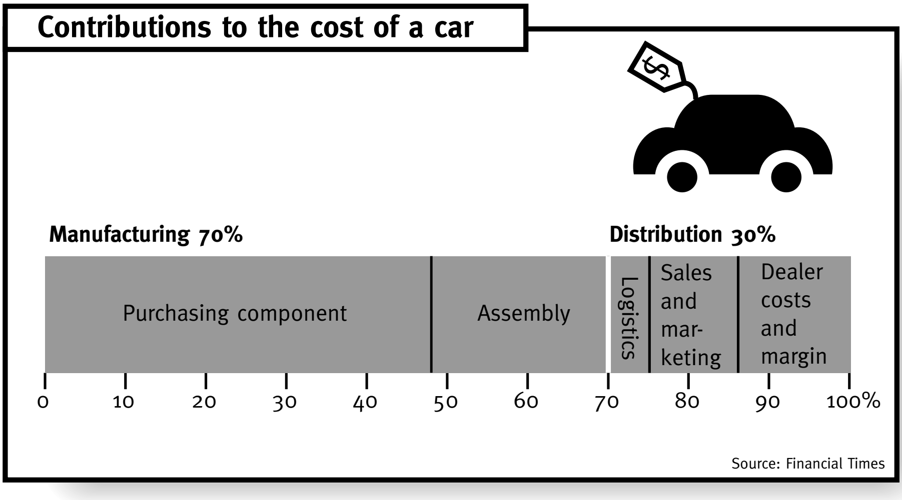
Volvo has attracted much international attention with its early and unconventional marketing on the Net. And a pilot project has been in progress in Belgium since the summer of 1998, offering potential customers the opportunity to order a car and have it made according to their own specifications. Truck-maker Scania has been selling used vehicles on the Net since the spring of 1998. 120 retailers in six countries have joined the scheme.

Other examples are the Stockholm morning newspaper *Dagens Nyheter*'s "DN Motor" and the publication *Motorbörsen*. Similarly, the Swedish Association of Auto Dealers and Service Shops has *Biltorget*, Scandinavian Online has *Svensk Bilweb*, and there is *Svenska Bilhandlare på Internet*, behind which are Jirhall's *InternetBilMarknad* and *Svensk Reklamdistribution* (advertising distributors). However, they offer used cars only, with the exception of *Svensk Bilweb*, which has been offering new vehicles through some 50 dealers since the autumn of 1998, and also of Volkswagen Sweden, which became the first manufacturer to start selling on the Internet in October the same year.

In addition, a large number of retailers such as Bilia, Saab-Ana and

---

[1] Chrysler gives Internet a plug, Cnet February 1, 1998, *www.news.com*



Motor manufacturers have severely rationalised production. Now the turn has come to distribution, which accounts for 30 per cent of the price of a new car.

Kindwall's are trying to find new ways of developing customer relations on the Net.

Customer dissatisfaction with the traditional sales system is the driving force behind the changes. The greater choice offered by the Internet, both of products and financial information, will alter buying behaviour.

But change is also in the manufacturers' interest. They usually regard retailers as a necessary evil in much the same way that airlines view travel agencies.

Little change in distribution

As opposed to product development and manufacturing, where competition from Japan has forced the motor industry in Europe and the US to adopt firm measures, little has so far been done to make distribution more efficient. On the contrary, for a long time the tactics have been to sign up as many dealers as possible in the hope that it would stimulate competition and result in higher sales and market shares. The result has been a surfeit of dealers. Moreover, it is expensive to maintain a large network of retailers.

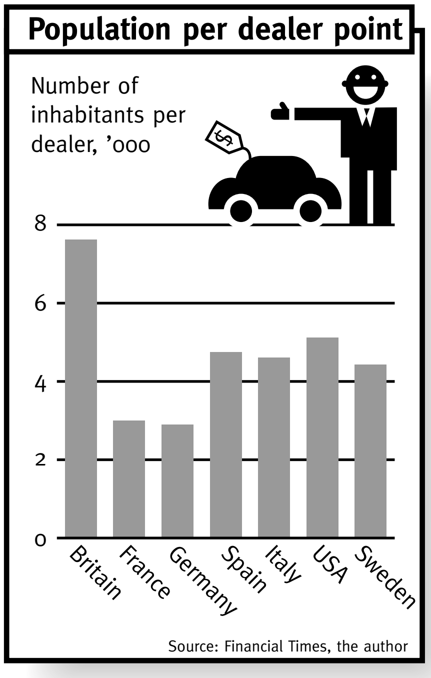
At present, the cost of distribution from factory to customer is around 30 per cent of the value of a new car. A breakdown is given in the diagram.

Thus there is much to gain from a more rational system. This has made the manufacturers think again in recent years and investigate the possibility of making distribution cheaper as well. Volvo Cars, for instance, has declared that the cost will be halved.[2]

One way is to steer customers into cheaper channels, such as the Internet. It does not mean retailers will become superfluous, but considerably fewer will be needed. US forecasts say more than half the country's 22,000 will disappear in the next five or ten years.[3]

Nobody knows to what extent Sweden will be affected. The US is a couple of years ahead. But few observers doubt that the Swedish car trade is also facing great consolidation.

There are an estimated 2,000 dealers today, which is one per 4,500 inhabitants. It is certainly better than in France and Germany where the average is one in 3,000, but worse than the US and Britain, where there are 5,000 and 8,000 inhabitants respectively per dealer (see the diagram).



The concentration of car dealers varies. Britain is ahead, with fewest in relation to its population, while Germany and France lag behind. Sweden is in the middle.

Moreover, profitability in the trade is low. According to the Swedish Association of Auto Dealers and Service Shops, profit margins are one-to-three per cent, although there are firms that get up to five.

"So even if the Internet only takes small volumes, it can have a great effect on future developments," says Kjell Alkärr, Chief Executive of the Association.

---

2 *Elektronisk handel ett måste för Volvo* ("Electronic commerce a must for Volvo"), *Veckans Affärer*, June 15, 1998.

3 *Digital krängare pressar bilpriserna* ("Digital subversives squeeze car prices"), *Veckans Affärer*, June 15, 1998.

Autobytel.com has attracted tens of thousands of Amercian car buyers by offering all makes and a number of value-added services. The turn will come to the Nordic countries in 1999.

Therefore it is not surprising that *autobytel.com*'s entrance into the Nordic market has aroused mixed feelings in the trade. The head of the new service, Lars Svensson, with a past at the helm of Philpson's Bil, aims at selling 50,000 cars in the Nordic area within five years, which would be four per cent of the market. "I think the Internet will eventually account for 10-20 per cent of sales," he says.

Fewer retailers

But it is not only the number of dealers that will diminish. Those who remain must also expect their roles to change radically. In the final analysis they will all be turned into virtual retailers. It will be more cost-effective to send a car home to the customer for a test drive than have hundreds standing still on a site.

Peter Ellis states that a large part of the manufacturing work will be just-in-time in future and dealers will stock fewer cars. New models will also be developed to look at and take for a trial run. Instead of the customer seeking out the dealer, it can be the other way round. Orders will then be placed via the Net. Ellis says he has a number of ideas about how this could be done.

The following pages show what action Sweden's largest car retailer, Bilia, is taking to meet competition from the electronic marketplace.

Much cheaper

Cost of selling 100 cars in the US, dollars

	Traditional trade	**autobytel model**
Staff	93,300	21,400
Marketing	33,500	7,800
Delivery	–	5,000
Total	126,800	34,200

Source: autobytel.com

Bilia

The biggest also wants to be Net best

Bilia is Sweden's biggest Volvo and Renault retailer. It is also one of the world's top ten car dealers. Now the company is also going for leadership in the electronic marketplace – even if it means greater competition and a threat to the present order.

"One thing is certain," says Mats Jansson, Bilia's Managing Director and CEO. "This trade will be completely changed. Either we wait and see what happens, with the result that it'll go to the devil anyway, or we're in there from the start and take an active part in the transformation."

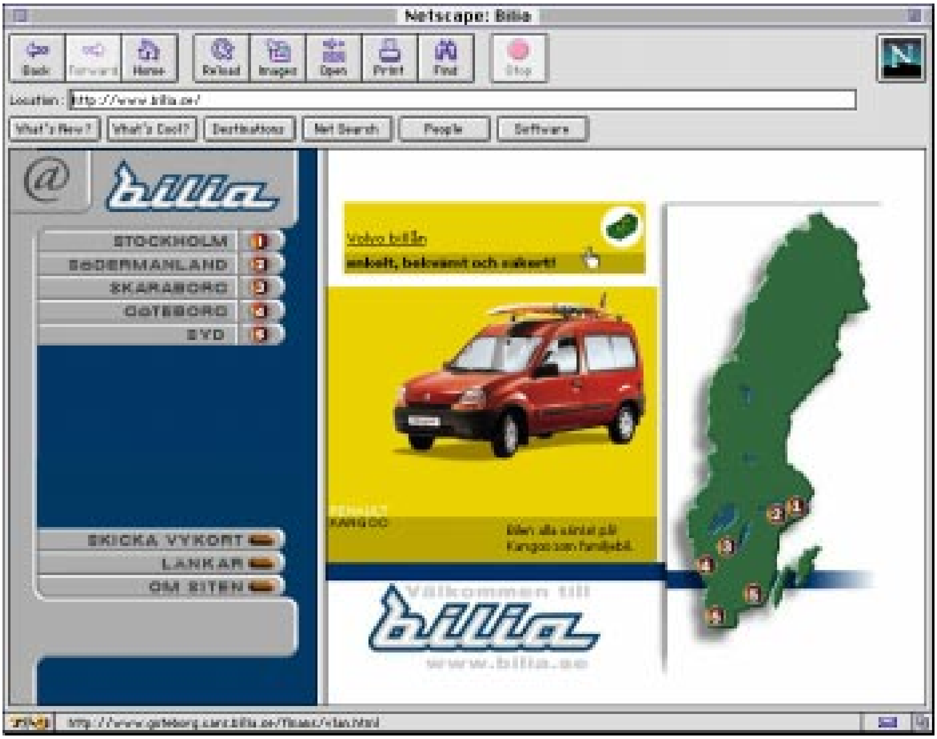
More cost-effective

"Regardless of what we do," he continues, "the pressure on prices and margins will increase. Through the Internet, we can become considerably more cost effective and give our customers better service at the same time."

The Bilia Group consists of about 30 retailing companies with over 100 establishments and 4,800 employees in ten European countries, of which Austria, Hungary and Slovakia were new in 1998. Together, they sell some 60,000 new and used cars, about 4,000 trucks and 1,000 contractors' machines a year.

The Nordic countries are the predominant market and Bilia has about 40 per cent of the Volvo trade in Sweden. Consolidated turnover in 1997 was close to SEK 14.4 billion and profit after net financial items 385 million.

The Group's financial position has markedly improved in recent years. When the present management took over in 1994, Catena, as the business was called, was in crisis. The Group had been tempted to expand into new fields such as property and finance in the 1980s. But the financial crash and subsequent recession brought an abrupt halt and Catena lost nearly SEK 1.8 billion in two years.



Bilia's Internet store. The company aims to be the leading dealer in the electronic marketplace as well.

Motor trade in focus

And so the first task was to clear out all extraneous business. Then the motor trade had to be made more profitable. It had lost a lot of ground owing to falling sales of new cars, poorer margins, deregulation and a growing number of private imports.

Disposals halved the balance sheet to SEK 6 billion. And in September 1997 Catena became Bilia. The name was changed to emphasize that the period of diversification was at an end and that in future, the company would concentrate on motor vehicles and service.

But the management had long since begun to look at different possible ways of developing its core business. "Our starting point was that it must be possible to renew the traditional car trade," says Johan Rhöss, Deputy MD, responsible for business development and IT and who came to Bilia soon after Mats Jansson.

"Both Mats and I are new to the game," he states. "We hadn't trudged round a car showroom for 25 years and could therefore allow ourselves to call these stone and concrete palaces into question. On the Internet there are many sellers who are not effective all the hours of the day and night and where in addition, the customers are not satisfied with how business is done."

They quickly realised that the only way of raising profits was to increase productivity, cut costs and reduce the amount of capital tied up. "It's a question of survival," Mats Jansson states. He was brought to Bilia from the ICA food-retailing group.

The net margin in the car trade in the Nordic countries is between two and three per cent. It is even lower in the rest of the European operations. But then only a small part of the profit is from car sales, 15–20 per cent. The biggest contribution is from the after market, i.e. service, repairs and spare parts. Financing purchases is also an important source of income helping to maintain margins.

Overcapacity in the trade

Even if the situation is better for trucks and contractors' machines, the trend is clear. Overcapacity in the trade and growing demands for lower distribution costs, which at present account for nearly 30 per cent of the value of a new vehicle, will put further pressure on retailers.

And so cost-cutting is in focus in Bilia's new strategy for the twenty-first century. The same applies to benefiting the customer. Several surveys show that customers do not think buying a car or visiting a repair shop is particularly pleasant. And dissatisfaction is greater among women than men. A third key concept is growth, which is to be reached both organically and through acquisitions.

With regard to costs, the short-term target is to save SEK 200 million. By the end of 1997, Bilia had got half way, partly by forming a Swedish company for selling trucks and by reducing the number of car showrooms. In the Greater Stockholm area they have been slimmed down from 16 to 11. New measures aimed at saving a further SEK 30 million were also introduced in the spring of 1998. They included merging the former five car companies in Sweden into one national company.

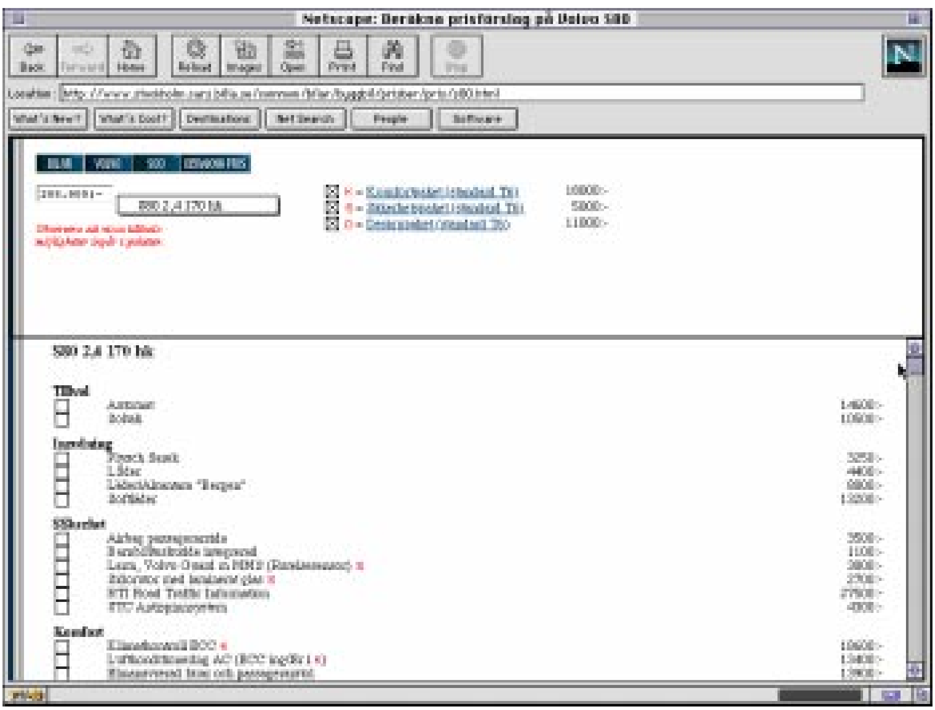
"So far we haven't benefited from being a Group," says Johan Röhss. "Apart from the fact that we now have a management group and administrative centre in Sweden, we can also have uniform prices, a uniform image and uniform behaviour towards the market," he continues. "We haven't had that before."

Hypermarkets of the new age

Bilia has 60 establishments left in Sweden and a total of nearly 130 in the Group. But there are likely to be fewer in future. "The trend is towards bigger showrooms that display the whole range, more sales staff and longer opening hours like the hypermarkets," says Mats Jansson, many of whose ideas are taken from retail trading.

There are also thoughts about a national call centre for making appointments at service and repair shops, technical matters and eventually also telemarketing. At present, all such things are done locally at each establishment.

At the same time, the Internet is expected to play a key role in the car trade of the new century. Bilia's managers are convinced that this is the solution to many of the problems dealers are faced with. "Accessibility increases and the customer saves time," says Johan Röhss.



Customers can build their own car on the Internet and immediately be given a basic price.

That is the reason why Sweden's biggest car dealer has also taken the lead in developing the electronic marketplace.

But as often happens, it was largely chance and the right timing that put Bilia in that position. When on a study trip to Britain in 1995, the management came into contact with the British retailer Camden Motors, which with EU money behind it had developed a kiosk concept for selling cars. It was based on interactive terminals connected to a call centre. The idea aroused Bilia's interest and negotiations began on introducing the kiosks into the Nordic countries.

Unsuccessful kiosk

A consultant who was called in made Bilia think again when it was shown that the kiosks could not be connected to the Internet. The British had entrenched themselves in a technology that was already obsolete. Neither were the kiosks ever much of a success.

Knowledge of the Internet was not very great within Bilia at the time. But after a first introduction, the management realised the technology was better for what they wanted to achieve. The idea was to create an interactive service in which the customer can build his vehicle himself and get all the necessary information, before taking it for a trial run.

"We also said that if the Internet gets big, it can be a great threat to us," says Johan Röhss. "Therefore we can't afford to wait and see what happens. Mats also gave the go-ahead to invest money although we still hadn't recovered financially.

"If he hadn't been with us and urged us on – he was the driving force – I don't think we'd have succeeded. And you should remember that Mats is no IT man," Röhss adds.

Hypotheses confirmed

The decision was taken in May 1996. A young Internet company in Lund called Framtidsfabriken, which later did a number of jobs for Volvo, was commissioned to construct the Web service. The work was not preceded by any great preparation. Instead, many of the ideas developed during the course of the project. Two market surveys were carried out concerning customers' knowledge of the Internet and their interest in using it when buying a car. Focus groups were also called in to give their views on functions and design.

"Most of our hypotheses were confirmed," says Röhss. "Accessibility was particularly appreciated – that customers could get information in peace and quiet at times that suited them best without having a salesperson after them, interested only in selling. Another factor given prominence was that it saved time. Customers didn't have to drive around and look for brochures."

The Internet car store was ready to be opened in March 1997. The estimated cost of the project was around SEK 10 million, which made it one of the biggest Internet investments Sweden had seen so far. The amount included staff training and marketing.

The start was made in Greater Stockholm, which is Bilia's largest single sales region. The other Swedish regions joined in October 1997. Bilia in Norway was connected in June 1998 and Bilia Denmark is also on the way in. If and when the other European sales companies will go on the Net is not clear.

"But it is possible to create the world's biggest motor vehicle store from Umeå in northern Sweden to Milan in the south," Mats Jansson stated at the inauguration.

The entire Volvo and Renault ranges are available on the Web. Customers can tailor their vehicle according to their own desires. The database contains some 1,400 pictures with alternative colour schemes and interiors. Technical data and prices are also given. The buyer can even make an appointment for a test drive with one of the retailers.

"So far it isn't possible to make the actual purchase," says Johan Röhss. "But the system is technically prepared for that too," he adds.

Apart from information on new cars there are also details of all the used cars in stock in Sweden, 3–4,000 vehicles. Having chosen a make, mileage, year and price range, the cars available at any of Bilia's outlets are presented in words and pictures.

Quicker turnover

The Net gives buyers access to a much greater selection than if they had to resort to the local dealer alone, thus increasing their chances of finding just the car they are looking for.

Bilia hopes this will result in quicker turnover, which will help reduce the amount of capital tied up. But in that case it may be that prices will fall. At present there are big differences in price between the metropolitan areas and the rest of the country. However, the pressure on prices will increase because the vehicles are available to all regardless of where they live and it is also easier to make comparisons.

"There is no doubt that the differences will be ironed out," says Mats Jansson. "But it would have happened anyway," he adds.

In the Net store customers can also see how long they have to wait to visit the repair shop, make a booking and order the Volvo card. Finance and insurance over the Net are also being considered.

Nevertheless, the start was somewhat tentative. After the first curiosity had been satisfied, the number of visits fell during the summer. But they have steadily increased since other Swedish regions were connected. In December 1997 the total had reached 170,000 and five months later in May 1998 it had passed the 400,000 mark.

Every day Bilia's site has between 1,000 and 1,500 visitors and the company receives 150 e-mail messages a week from them. The pages on new and used cars are the most popular. Many people also take the opportunity to order the Volvo card. Workshop bookings have also increased.

High age profile

A market survey in the spring of 1998 showed that 20 per cent of Bilia's customers knew about the Web site and of these, 75 per cent had visited it. In addition, 55 per cent of the customers had access to the Internet and 40 per cent used it regularly. "It's interesting in view of the fact that our customers have a relatively high age profile, with a clear predominance of the over-50s," says Johan Röhss.

The results thus far have also strengthened the management in its conviction that it should develop the virtual car showroom still further. So far the work has been aimed at private customers. But the greatest potential is likely to be in the business-to-business field. Some 60 per cent of the new cars that Bilia sells are namely company cars bought by corporate customers.

"As we have agreements with the bigger customers, no discussion of prices and discounts is necessary. When it's time to change, the customer need only go to the Net and configure the car. A copy is sent to the person in charge for approval, after which the order is sent to us by e-mail," says Johan Röhss. "If the customer has had a Volvo V70 for instance before, there's no need for a trial run either. The whole deal can be concluded over the Net. There are enormous productivity gains to be made."

The same is true of trucks and excavators. This market is not as geographically limited as that for cars. The buyers move all over the country and even abroad. By putting out information e.g. about used machines, on the Net, you can also reach foreign buyers.

No more exclusive rights

"The Internet makes frontiers and exclusive sales districts disappear entirely," Johan Röhss states.

But Bilia also sees opportunities in using the Internet to develop and improve the after market for service and maintenance etc. The vehicles are getting increasingly smart and will probably soon also be connected to the Net themselves. Continuous information on their status can then be downloaded.

"If it is shown that the brake shoes need changing, or it's time for preventive maintenance, we only need send a message to the customer to come in," says Röhss. "This will perhaps be mainly for customers with large fleets of trucks and service agreements with us."

But there is another conceivable development, that manufacturers will start selling straight to the customer. At best, the retailers would then be reduced to distribution and test-drive centres, or a chain of workshops.

Horrific scenario

"Of course it's a horrific scenario for many," says Johan Röhss. "But I believe that at least a few of the big ones can have a part to play. Knowledge of the trade marks will be decisive. Therefore it is so important for us to remain the market leader in the Nordic area and be in the forefront of developments."

For that reason Bilia has not been content to set up its own outlet on the Net. The company has gone a step further than most others by inviting its competitors to speed up the process of change.

Bilia is behind the initiative to introduce the US company Auto-by-Tel's concept of e-commerce for the car trade in the Nordic countries. One of the basic ideas is for all makes to be represented.

A new company has been formed, Auto-by-Tel Nordic, which has the rights to the concept and technology and which other dealers will have a stake in.

Moreover, Bilia has bought three per cent of the shares in the US company at a price of five million dollars.

The move has attracted much attention both within and outside the car trade, and raised questions about the intentions.

Advantage of one-stop shopping

"Some people have wondered whether this is a way for the dinosaurs to block a new channel – but it definitely isn't," Johan Röhss states. "Our ambition is to be the Nordic leader in electronic commerce. And in that case our own Web site is not sufficient, even if we continue to develop it."

Bilia's management believe that Auto-by-Tel and similar online shopping services will claim a considerable proportion of the Internet commerce in the future.

"It has so many advantages compared with other services on the Net," says Röhss. "It offers the customer one-stop shopping. Here are all the makes of car and all the information about them in one place. Moreover, it's extremely customer-oriented, with the right car at the right price."

At the same time there is also a risk that Auto-by-Tel can be cannibalised by Bilia's own business. The competition is getting stiffer and the risk is that the customer will go to someone else.

"Of course it's possible," Mats Jansson admits. "But we consider it important to act proactively. If we don't do anything, someone else will. In addition, this is an excellent way of speeding up our conversion work," he says.

"There is a tremendous cost-cutting hunt in the trade today," Johan Röhss adds. "In this way we can perhaps reduce our costs in half the time it would otherwise have taken. Outside pressure is often needed to get change moving in an organisation. But it certainly is paradoxical that the biggest player has gone farthest. Other, smaller, retailers should have more to gain."

www.bilia.se

The 'glocal' companies

October 1996. A press release from the Swedish data- and telecommunications company AU-System reports that it has received a huge order from the Australian telecoms administration, Telstra. The deal is for the company's security system, which Telstra wants to install on 10,000 personal computers.

However, the real news is not the size of the order, but the way it has come about.

It started with a discussion in an Internet newsgroup. A contribution about secure information management by one of AU-System's employees roused the curiosity of a Telstra representative. He asked a number of questions and the answers made him so interested that he decided to come to Sweden to acquaint himself with the technology on the spot.

Later, when it was time for procurement, the order went to the Swedish company. "There would never have been a deal without the Internet," says Ulf Jonströmer, AU's Managing Director. "What started as an exchange of information became the first step in establishing our technology on the world market," he adds.

New opportunities for small businesses

AU-System is but one example of how the electronic marketplace creates new opportunities for small and medium-sized businesses to market themselves and reach customers throughout the world.

Every month thousands of companies cross national frontiers for the first time to communicate with customers and sell products on the international market.

They represent all types of businesses and industries, producing both manufactured goods and services.

There was a clear trend towards globalization of the market well before the Net became a popular medium. But the Internet has speeded up the process. Above all, it has made it possible for absolutely

Habia Cable sells custom-designed cables throughout the world. In 1994 the company was one of the first in Sweden to go on the Internet. The move quickly paid off.

anyone, even very small companies, to get started and do business on a global scale at relatively modest cost.

Previously, this was the preserve of large, financially strong companies. Developing strategies for doing business outside the home country's borders to reach foreign customers in their own markets with all it involves with regard to support and service, for example, was risky, expensive and required a large sales and marketing organisation.

To justify expansion abroad, the company's strategists needed to produce credible cost estimates showing that the time and resources invested would, in all probability, produce good results.

Size of no importance

These requirements were natural barriers, particularly to smaller companies. But the Internet has changed all that. The size of the company is no longer a significant factor in getting established in the market. Large and small companies can exist side by side with no difference in the design of their shop windows and the decorative elegance of their interiors.

New opportunities are opened up for niche products which perhaps have no prospect of holding their own locally because the market is too small. The potential clientele is broadened and multiplied many times over.

"The Internet has done for electronic commerce what Henry Ford did for the automobile," states an OECD report on The Economic and Social Impacts of Electronic Commerce.[1] It has "...converted a luxury for the few into a relatively simple and inexpensive device for the many."

In fact, smaller companies can gain extra advantages from the opportunities the electronic marketplace creates. They can use a business model that forces their bigger, well-established competitors to review their existing business mechanisms or see their competitive advantages weakened.

That is also the reason why small and medium-sized companies have been quicker to use the Internet.

As with size, distance has also lost its significance as communication is electronic. "The electronic market opens doors from Wall Street to Khartoum to downtown Tokyo, making them no more distant than if they were around the corner," states the author of The Future of the Electronic Marketplace.[2]

Lower transaction costs

The Net reduces the company's contact and transaction costs dramatically. Physical presence is no longer a prior condition for doing business. On the contrary. Armies of salespeople, chains of subcontractors, large numbers of subsidiaries that cost much time and money to build up, risk being turned into obstacles or expensive burdens in the new marketplace.

"Whether the Internet is used as a marketing communications tool, a new sales and distribution channel, a medium to provide customer support, or the infrastructure to improve communications and transactions with suppliers, it provides unlimited opportunities for redefin-

---

[1] *www.oecd.org*

[2] Leebart, Derek, The Future of the Electronic Marketplace, 1998.

The Internet gives small businesses new opportunities to reach a global market at low cost. This company in the town of Västervik exports beds for dogs.

ing the way global business is done," writes US professor Mary Cronin.

She has written several books about business on the Internet.[3] She sees three characteristics of the Net in particular that alter underlying conditions in the global market:

- It is a business environment free from traditional borders and limitations.
- It offers companies unprecedented potential for expanding markets, reducing costs and improving profit margins.
- It provides an interactive channel for direct communications.

And so it is not surprising that smaller companies are often quickest

[3] Cronin, Mary, Global Advantage on the Internet; From Corporate Connectivity to International Competitiveness.

to establish themselves in the electronic marketplace. It is the unlimited reach, the enormous scope of the Internet that appeals to them.

This applies particularly to those operating in a narrow sector with highly specialised products. That is where AU-System belongs, for instance, but also Areco Products in the town of Östersund, selling snow cannon, ScanCord in Hörby, whose five employees make industrial netting, and Bengt Asklöf & Co. in the town of Västervik, which sells dogs' beds of its own design.

The Internet enables niche products with an extremely limited target group, to reach a critical mass.

Habia Cable among the first

Habia Cable in Söderfors is the Swedish company with perhaps the greatest experience of that. As early as August 1994, when the number of Web pages in the world was still counted in hundreds, it was possible to study the company's range of specially-designed cables on the Net.

"None of us understood how early we were," says Kaj Samlin, Habia's Managing Director. "It was an individual employee who took the initiative, but we realised fairly quickly that the Internet could be used commercially."

Habia Cable, which is owned by Beijer-Alma, a listed company, is one of the biggest manufacturers of special cable in the Nordic area, with 3,000 different items in its range. Of its annual turnover of some SEK 200 million, 75 per cent is exported. Its customers are in the nuclear power, defence, telecommunications and other industries. Apart from local manufacturers, it has three main competitors, two American and one Swiss.

The greater part of its sales are made through its 13 sales offices. But the Internet has proved an excellent complement in the battle for customers. The Web site has therefore gradually been extended and is now in seven languages.

"The Internet is definitely a means of competition for us," says Kaj Samlin. "We save time, can cut lead times and it makes handling cheaper, at the same time that the customers think it's convenient to use."

The number of enquiries received has also steadily increased. There was one a week in the first year. Now Habia gets an average of one a day. Moreover, many are from markets where the company has no representation.

"It has not only resulted in new customers in the Middle East, South America and elsewhere, but we've also acquired agents and found new suppliers," says Samlin.

The immediate advantage is reaching small markets where it was previously unprofitable to do business.

"Sometimes we had to say no to orders because it was too expensive to send a salesperson. The cost of the airline ticket meant it wouldn't be profitable. But when the customer places his order on the Internet, the costing is completely different," says Kaj Samlin, who has high hopes of the Net in the company's continued expansion. The goal is to double turnover and be biggest in the sector in the year 2000.

"The Net will be of great importance in getting there," states Samlin. "I believe 15–20 per cent of our orders will come that way at the turn of the century."

Elfa growing abroad

Elfa, a 50-year-old family business, is another example of how the Internet creates conditions for international expansion which would otherwise have been difficult or financially impossible.

Elfa is one of Sweden's biggest catalogue-order distributors of electronic products. It has annual sales of just over SEK 500 million and stocks 34,000 articles, or "everything between antenna and earth," as it claims.

The annual Elfa catalogue of over 2,000 pages is its most important sales instrument. But it is expensive to produce and distribute. The Swedish edition alone has a print run of 130,000 copies. In addition, there are 40,000 for the Polish market, where the company recently started doing business.

Since 1996, Elfa has also produced 90,000 CD-ROM copies of the catalogue. A Web site was opened in the same year, but it was not until 1997, when the entire catalogue was put on the Net, that business really got going. After only six months, five per cent of the orders came from the Net. And the figure is continuing to grow.

"I believe 30 per cent of all orders will come that way soon after the turn of the century," says Marketing Director Anders Waernulf.

The Net catalogue has many advantages over the printed version. It is continually revised, so the information is always up to date. Customers can place orders round the clock and immediately be informed whether an article is in stock, or how long it will take to deliver. There is often also additional information, e.g. original data sheets or links to the manufacturer. For the customers it means better service, while Elfa hopes eventually to save money by cutting down the printed edition.

Great cost advantages

But Anders Waernulf also has other Internet ambitions. It should help the company enter new markets. An English version of the Net catalogue is in the pipeline. In theory, it should open the entire world market. There is already a certain amount of export sales to foreign companies, particularly with Swedish connections. Elfa's management hopes the proportion exported will increase by making it easier for them to order.

"But in addition, we can use the English catalogue to get into new markets such as the Baltic states, which are too small for a translation of the paper catalogue to be profitable," says Anders Waernulf. The development of a more and more closely linked global economy puts pressure on companies of all sizes and forces them to extend their horizons when it comes to the extent of competition and also to new business opportunities that are fully independent of geographical considerations. But it also means that competition is increasing.

The following sections deal with Reflex Instrument, Sonesta and Cybergene, three of the 'glocal' companies of the new age – small, local companies now operating in a global market.

CyberGene

The whole world's laboratory

Heléne and Jan Olsson had been thinking about starting a business in which they could cross-fertilise their expertise. She was a chemist specialising in microbiology, he a computer-science specialist with a doctorate in artificial intelligence.

The opportunity arose in the autumn of 1994. Heléne was offered the chance to take over her own workplace, which then belonged to the Centre for Biotechnology at the Karolinska Institute in Stockholm. She had worked there for the past three years.

They grabbed the chance and started CyberGene AB in March 1995, named after their two disciplines, cybernetics and genetics.

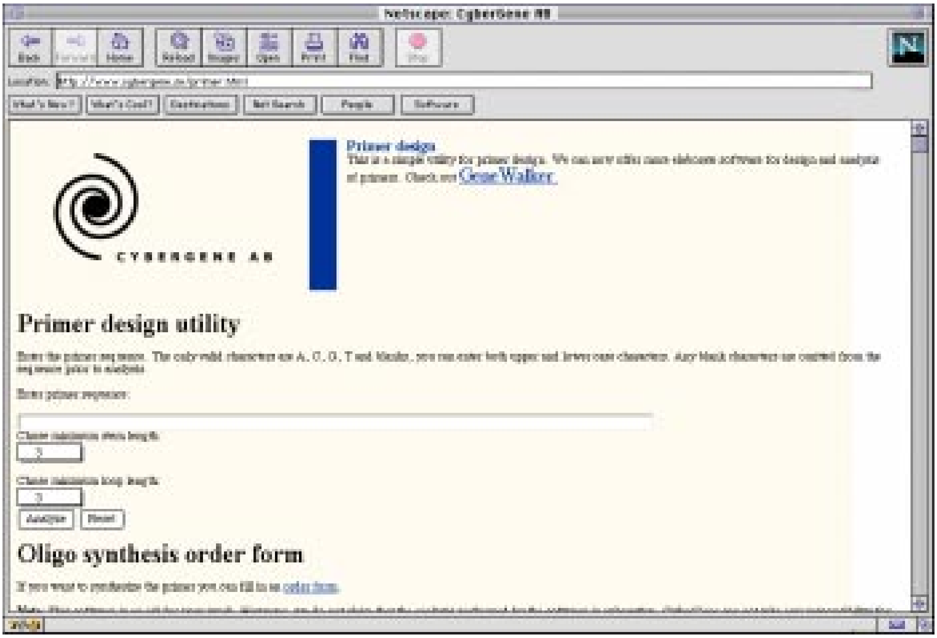
Local service unit

The company's premises are in the Novum Research Park at Huddinge Hospital just south of Stockholm, where it carries out DNA analysis and synthesis. The latter involves designing and producing short DNA sequences.

Previously, analysis and synthesis were carried out by a local service unit commissioned by the Institute's researchers at Huddinge Hospital. They are still an important client and the takeover was conditional on the company remaining in the Novum Research Park.

But the clientele has broadened considerably and customers now include several research and development units at other universities, university colleges and pharmaceutical companies. This has resulted in greatly increased sales, from SEK 1.5 million the first year to 3.5 million in 1997. The expansion would not have been possible without the aid of information technology and the Internet.

"Right from the start, one of our basic ideas for running the business was to use the technology." says Hélene Olsson, who is CyberGene's Managing Director.



Cybergene was previously a local laboratory within the Karolinska Institute. The Internet has given it customers throughout the world and made it a new Swedish exporter of services.

Feeling in the stomach

But in the spring of 1995, the Internet was still relatively unknown, not least in business contexts. “It was more a feeling in the pit of the stomach that guided us,” admits Jan Olsson, who has so far worked as a consultant in developing the company’s IT services.

The feeling soon proved to be right. It was not long before enquiries and also orders began to come in via the Net, from both Swedish and foreign institutions and companies. Thanks to the Web site, the company now has regular customers in Finland, Norway, Germany, Japan and Indonesia. And the export of services, for that is what it is, accounted for 15 per cent of turnover in 1997.

“We would never have got these customers if we hadn’t been on the Internet,” says Heléne, who expects foreign sales to grow strongly in the years immediately ahead. The number of enquiries is increasing steadily and they come from almost the whole world. She has to reply to e-mail from abroad every day.

The Internet service enables customers both to order the manufacture of synthetic DNA and order and download DNA analyses.

For manufacturing, the customer fills in an order form on the CyberGene Web site and sends it to the company electronically. The data file containing the sequence in question is automatically transferred to the synthesis instruments.

Analysis on the Web

The final result, a test tube with synthetic DNA, is then sent to the customer by post.

With analyses, both order and delivery is via the Internet. The completed work is placed on CyberGene's Web server. After entering a password, the customer can then download it from the site.

"It's extremely handy as customers can choose for themselves when they want to study the results," says Heléne. "Every customer is allocated a slot on our computer that only they can access," she points out.

Producing DNA sequences accounts for 50 per cent of CyberGene's business and roughly half the orders come by way of the Internet. The advantages are many, for both parties. It speeds up the process, which is important as the work should preferably be completed the same, or the next, day. Moreover, results are of better quality and more reliable.

Distance no longer matters. Regardless of whether customers are in the same building or another part of the world, they can be served just as quickly and efficiently. To that extent CyberGene now functions as a virtual laboratory.

Fewer errors and time saved

The traditional procedure has been for customers to send in a written order by fax or letter that must then be dealt with manually. Apart from involving more operations there is also a greater risk of typing and interpretation errors. When the results are ready, they are put on a floppy disk and sent with an accompanying letter by mail or messenger, which means more time is wasted.

Therefore the Internet service is an important reason why CyberGene was able to double its turnover by 1997 with the same number of employees, three, as when the business started.

The Web site also contains a program developed by Jan Olsson, enabling customers to test the quality of their DNA sequences to see whether they are usable before sending off an order. The program is free and available to all. It is used frequently throughout the world, even by those who are not customers of the company.

"Of course, we'd like to earn money on it," says Heléne. "Some people tend to go in and use the program, only to place the order with someone else," she continues. "But at the same time it attracts visitors to our site, which makes the company known and hopefully gives us new customers."

Key to growth

There are competitors all over the world, both commercial operators and internal units belonging to different research and development departments, e.g. at equivalent organisations to the Karolinska Institute or pharmaceutical and food-processing companies. Neither is CyberGene alone in using the Internet. But none of its competitors has such advanced services.

"That has quite clearly given us a competitive advantage," Heléne states. "Our early start has given us a lead."

The Internet plays a key part in the company's future-growth strategy. This will place even greater emphasis on the service and try to persuade more customers to choose it.

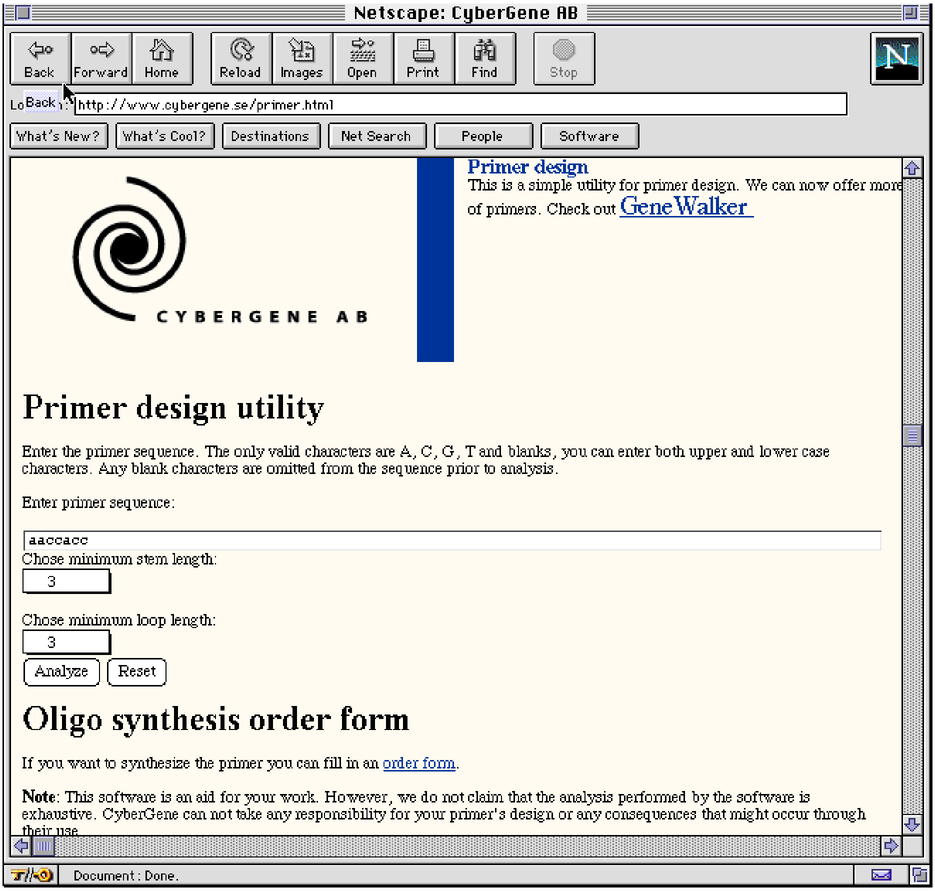
There are also more ideas on how the Internet can be used to develop the business. "The intention is to integrate Internet orders so that details given in customers' orders automatically generate an invoice," says Heléne Olsson.

Output tripled

An important step was taken in the spring of 1998 when CyberGene bought the synthesis unit at Kebo Lab and could triple its output of synthetic DNA. It has meant greatly increased traffic over the Net. The number of employees has also increased, totalling seven in June 1998.

Budgeted turnover for 1998 was SEK 6.1 million, but that includes new Net-based services and products.

External backers have been brought in to make expansion possible. Teknologiparkernas Utvecklings AB, TUAB, has had a stake from the start and in 1997 Tectelos, a Swedish-owned risk-capital company specialising in medical technology, came in. CyberGene will also need to take on new staff, while a Marketing Manager has been hired on a consultative basis.



Customers can test their own DNA sequences on the Web before sending an order. The function is free and available to all.

A field judged to possess great growth potential is clinical genetic diagnostics, which with the aid of DNA analysis can determine various diseases. The diagnoses are more certain and time can be gained when the pathological picture is not clear.

Telemedicine potential

They are being made already, but to a limited extent and principally at the Huddinge Hospital and other research clinics which can carry out such analysis. With the aid of the Internet, other hospitals and also individual doctors could take the opportunity to make clinical genetic diagnoses.

The strategy also includes turning services into products. The company has developed software for analysing genetic sequences. Customers can subscribe to the service on the Internet. There are similar programs on the market, but they can only be bought, which is considerably more expensive.

Jan Olsson may be a computer software specialist, but he keeps rapid development in the field in perspective. “There’s a big difference between what is technically and what is commercially possible on the Internet,” he says. “At first I thought we must be at the cutting edge, but soon realised it could be a drawback instead. Customers can’t keep up. So our attitude today is rather to keep everything as simple as possible and stay at a basic level.”

www.cybergene.se

Sonesta

New exporter thanks to the Net

Sonesta, a medical-engineering family business, had no choice. After capturing some 80 per cent of the Swedish market in 18 months with its new, patented, gynaecological table, exporting was all that remained if the company was to expand further.

The problem was how Sonesta, with only four employees, could launch itself internationally. Various means were tried before the suggestion to try the Internet was made in the spring of 1996.

"But I was very hesitant and it needed a lot of persuasion before I agreed," says Christer Sundström, the Managing Director. "We who are in our fifties belong to the wrong generation," he adds. "I didn't even own a computer at that time and they wanted to foist interactive sales tools, virtual reality and the Internet on me. It was just a lot of gobbledegook to me!" he states.

But Christer Sundström finally let himself be convinced and today he is a keen advocate of using the Internet for business. "We'd never have been able to develop as fast as we are now without the Net," he says. "The investment has already been repaid and will be even more profitable in the next few years when the big expansion should come."

Turnover doubled

Sonesta's turnover in 1997 was SEK 14.5 million, up about 45 per cent on the previous year. In the 1998 budget, sales are expected to more than double to SEK 31 million and reach about 110 million in the year 2001 if everything goes according to the main scenario.

The company, which has its office in the Stockholm suburb of Nacka, was started in 1984 by Christer Sundström's wife Agneta to import and sell acupuncture needles. The agency business, which still exists and had a turnover of some SEK 4 million in 1997, developed and after a while moved into physiotherapy products, partly by acquiring the assets of a company. They included a gynaecology table.

The Internet has given Sonesta new customers around the globe. Doctors and other potential buyers can have an interactive demonstration of the gynaecology chair.

Considered dropping the product

"We sold 10-15 of them, but the quality was so bad we had to repair them the following year," Sundström says. "So for a time we considered dropping the product."

He did not work actively in Sonesta then. It was not until 1996 that he replaced his wife as full-time MD. Being a trained electrical engineer, he had a long career in the electrical industry behind him, including the positions of MD and partner in several companies, and had also worked internationally. During that time he came into contact with Samhall Dala in the small Swedish town of Avesta. When the construction crisis came at the beginning of the 1990s, Samhall Dala lost several customers and turned to Christer Sundström to find out if he had any work to commission from them.

For a long time he had been considering the possibility of improving the gynaecology table. There had been little development in the industry for the past 20 years.

Patented technology

The work was begun together with two construction engineers from Samhall Dala and in April 1994 is was ready for delivery. It is based on a patented and trade-mark protected technology that provides great flexibility. The patient can be raised and lowered very easily, but also held in position and moved on the table. It offers advantages both to the patient and the medical staff.

It was also very well received. 160 were sold in Sweden in only 18 months and the success has continued internationally. So far more than 1,000 have been sold to 42 countries.

Using the same, patented, basic technology, Sonesta then developed a series of chairs and tables for different healthcare purposes. For instance, the company is alone in the world with a urodynamics table and it is suitable for all types of urodynamics equipment. In recent years, Sonesta has also introduced lung-, heart-, delivery- and flexible- examination tables.

Manufacture takes place at Samhall Dala, where about 30 people are at work. Sonesta, with seven employees in Sweden, three in Britain and two in the US, owns the patents and is responsible for development and sales.

In the autumn of 1997, the company floated a new issue of SEK 14 million on the Innovation Market to acquire capital for further expansion. It also gave it 4,500 new shareholders, which is more than any other company on the IM.

At first, the gynaecology chair was marketed with the customary brochures and at trade fairs. However, it was difficult to show in print how it worked. The solution was to produce a video film. But even that had its weak points as it had to be remade each time there was any change, or a new part was developed.

The same applied to the brochures, which had to be printed repeatedly.

Only chance to reach everyone

It was then that Göran Karlsson at the Comwell advertising agency in Stockholm and whom Christer Sundström had collaborated with over the years, suggested Sonesta should develop an interactive sales tool and put it on the Internet.

“Göran claimed it was the only way for us if we were to have a chance of reaching out to many, if not all, of the world's 3-400,000 gynaecologists, who were our prime target group."

Christer Sundström hesitated, but decided at least to produce a floppy disk presenting the product and allowing the user to customize his chair by choosing the model and equipping it with sundry accessories. The floppy was introduced at a trade fair in Norway and received a big response from visitors and competitors.

"I then understood what opportunities the Internet offers. A small business can compete on the same terms as the giants. When we're finished we'll have our entire range displayed on the Net. Nobody can determine how big or small you are. And of course, that isn't so at an ordinary trade fair where my display stand is 12 sq m and the competitors' perhaps 300 sq m."

Sonesta's main competitors are about ten multinational companies in Europe and the US, among them Siemens and Philips. The biggest US company alone, Midmark, has 2,700 retailers in the American market. So far, Sonesta has 19.

The first Web site was ready in May 1996. Apart from information about Sonesta, its retailers and agents, it included the interactive demonstration of the gynaecology chair. There were also manuals and help in trouble-shooting.

Creates interest

The main purpose was to market and create an interest in the products. Orders and purchases were made in the traditional manner through retailers or direct contact with Sonesta.

Sonesta's only active marketing of its Web site is to make sure it is listed under as many search concepts as possible within the appropriate field. It means that if anyone looks for items such as 'gynaecology chair' or 'endoscopy' in any of the search engines on the Internet, a link to Sonesta will be shown. There are also links to two foreign sites in the trade.

Reception has nevertheless exceed expectations. The site had 42,000 visitors in the first year, 68 per cent of them from abroad. This resulted in a number of enquiries, several small trial orders and six new agents in Australia, Indonesia, South Korea, Spain and Portugal.

E-mail from Malaysia

"One day we received a tender enquiry worth SEK 1.5 million from a customer in Malaysia," says Christer Sundström. "We would never have been considered if we weren't on the Net."

The total cost of the interactive production and Internet investment was SEK 400,000. Sundström considers it has been more than worthwhile. The alternative would have been to employ another two export salespeople, which would have cost a million a year. Moreover, the new agents generated additional sales of SEK 1 million in the first year, equivalent to 10 per cent of Sonesta's turnover.

The Internet does not mean the end of traditional marketing and personal contact, which is as important today as it was before. But Sonesta does not need to print as many brochures. By having everything on the Net, the material can be updated all the time and easily printed out or transferred to CD-ROM at a cost of a couple of kronor a time.

"We're also spared 'zero' visits, i.e. going to a customer whose interest in buying is not quite clear, which was common before," Sundström says. "As the customer has been able to try the equipment on our Web site, he is often ready to order when we get in touch."

As far as Sonesta knows, the company is alone in the trade in using the Internet in this way, something it has not wasted any time in taking advantage of.

Enquiries every week

"It's a bit like toys for boys," says Sundström. "The service in itself helps create interest in our products, both with agents and potential customers." Two or three leads come in from the site every week from doctors or institutions asking for tenders or wanting to be retailers.

At the same time, the medium makes new demands on the staff to act quickly and reply in time. The rule is that all enquiries should be answered within 12 hours, but preferably immediately. Christer Sundström sees them as perishable goods and believes an enquiry that has been lying unanswered for two days is dead. Nowadays he also has a computer on his desk. He is no expert, but does not see that as a disadvantage. On the contrary.

"Our strength is that we know how the technology can be used and for what," he states. "It's not a question of producing a super site, but a good sales tool."

It is easy for customers to download manuals and technical descriptions, which saves Sonesta time and money.

The Internet service will also play a key part in Sonesta's continued expansion. The broader product range has multiplied the potential in the company's principal markets: the Nordic countries, Germany, Britain and the US. In addition, there are new countries including Russia, which is expected to become important. Eastern Europe, Asia and South America are also judged to be of interest and will be cultivated with the aid of the Net.

So an additional SEK 500,000 was invested in 1998 to develop the site. New features include interactive sales training so that agents can learn how each product works, while the display has also been improved. Also, orders are being automated so that they go straight from the agent via the Net and Sonesta to Samhall Dala. Until now it has been done manually, mainly by fax.

Payment by credit card

Payment by credit card for the cheaper products is also new. Among these items is a simpler type of operating table for SEK 6,000. It was originally developed for a field hospital in Chechnya, but attracted unexpectedly great interest in the West as well, where the health-care crisis has meant forced savings.

But Christer Sundström has even more plans. Together with Göran Karlsson at Comwell he has taken the initiative in creating a joint Web site called MediWeb for small, Swedish, medical-engineering companies that lack the resources to invest themselves and which are primarily oriented towards the Russian market. An English version is also being planned.

"The Internet offers a great chance to small businesses," Sundström says. "Those who want to export, whether they're large or small, and who are not yet working on the Net have one or two years left. The rest can be put in moth balls," he states.

www.sonesta.se

Reflex Instrument

Steering straight for the world market

The mining industry is one of the world's most demanding customers. Operations are underway around the clock, in every continent. For the most part they take place in inaccessible terrain where communications are often poor. It can be at an altitude of 5,000 metres in the South American Andes, in the barren tundra of northern Canada, or deep in the jungles of Africa. And everything must function properly. Every day that a drill stands still costs many thousands of dollars.

It is under these conditions that Reflex Instrument works. From its office above a hairdressing salon in Vallentuna, one of Stockholm's northern suburbs, Claes Ericsson and his six colleagues run a rapidly growing business with more than 150 customers, mainly mining companies, in 45 countries.

Life blood

Business is done with the aid of the Internet. Initially, the Net was used to send information to retailers and customers. Now it is a central part of the business, used for everything from marketing and sales to customer service, product development and training.

"The pace today is much faster than only a few years ago," says Claes Ericsson. "It should preferably not take more than a year from idea to finished product. Then it's also a matter of finding new ways of marketing and getting the products out. Otherwise you'll get left behind."

Reflex Instrument develops and sells instruments to measure the exact length and direction of drill holes. One of the problems in drilling far into the ground is to drill straight. When the drill steel is long like spaghetti, deviations can be very large. This makes it more difficult to ascertain e.g. the size and position of the ore.

But with the company's Maxibor, a seven-and-a-half-metre long camera that follows the drill's path through the rock, the operator al-

Customers can download software updates, as well as product information and technical data.

ways has exact information on its position. It saves drilling new holes and removing many tons of excavated material.

Major competitors in the US

Each instrument costs some SEK 350–400,000 and customers include tunnel diggers as well as mining companies. Even if it is very much a niche product, there are competitors – two American companies, one of them owned by Kodak. They are also substantially larger, but sell mostly to the oil industry.

It all started in 1974 when Claes Ericsson, who is really a construction engineer, got a job in his father-in-law's firm with responsibility for its instrument business. The products included a mechanical measuring device based on black-and-white film technology. The disadvantage was that it was manual.

When his father-in-law sold the firm in 1985, Claes Ericsson took over the instrument part of the business and started Reflex together with his wife, Birgitta.

Breakthrough in the English Channel

At roughly the same time, work started on developing an automatic measurement tool based on fast microprocessors and the latest computer technology. A good friend living in Scotland helped in developing the necessary software. The electronics were developed in England.

Four years later and after investing SEK four million of his own and borrowed money, Reflex Maxibor was ready. The international breakthrough came when the camera was used to guide a drill straight down when British and French tunnel builders met under the English Channel in October 1990.

But the money had run out. Even though the company had orders for close to two million kronor, nobody in Sweden was prepared to put up capital to get production going. Eventually, the offer was taken up in Norway and Trondheim Järnindustrier (now Teeness A/S) bought the company. The Ericssons remained as employees.

Engineering's Nobel Prize

Since these setbacks were overcome, Reflex Instrument has developed fast. In 1993 Claes Ericsson was awarded the Polhem Prize, often referred to in Sweden as engineering's Nobel Prize. The Maxibor has been joined by another product: Reflex EMS (Electronic Multishot), which measures the dip angle and direction of drill holes with magnetic disturbances, and Reflex EZ-DIP which only measures the dip.

Apart from the four employees in Vallentuna, there are now subsidiaries in Chile and Canada and soon also in South Africa. Sales have increased greatly, particularly in the past two years. Turnover in 1997 was SEK seven million, compared to five million the year before. And the rapid rate of growth is expected to last.

"We expect sales of SEK 50 million in the year 2000, very much because of the Internet," says Claes.

In 1997 alone, it is estimated that half the sales, or some SEK 3.5

million, were generated over the Net, directly or indirectly. The company believes it would probably have got most of the business anyway, but considerably later.

Reflex Instrument connected up to the Internet for the first time as early as in 1993. “I got connected as fast as I could,” says Ericsson, who until then had no experience of the medium. “But I have always been interested in communications. It was the same with the mobile phone. I bought my first one back in the mid-1980s.”

There was also a clear ulterior motive behind the move. At that time the Ericssons constituted the entire staff and the business was run from their house. The amount of information to go out increased in step with the growing number of customers. This applied particularly to software updates and related documentation. These were sent out twice a year by courier service to make sure they arrived, and at roughly the same time, at all customers. With customers in about 40 countries, the cost quickly soared. Every package sent cost an average of SEK 500.

Cheap updates

“We were obliged to find a way of cutting costs,” Ericsson states. “When it became possible to send electronic mail I thought it must be perfect. At last we can get out to our customers quickly, efficiently and above all, cheaply.”

Neither has there ever been a problem with customers not having e-mail. On the contrary. The mining industry was among the first to see the advantages of, and accept, the new means of communication. As they work in the harshest of environments, there are often no normal telecommunications. The Internet is the answer to communicating with base. With a satellite phone, large quantities of data can quickly be transmitted and received. In all, there are now 18,000 mining companies connected to the Internet.

Help from Canada

In 1993 there were still no established Web producers in Sweden. Instead, Reflex had to turn abroad and its first site was therefore with Info-Mine, a Canadian company with a particular focus on the world mining industry. Reflex now has a site in both English and Spanish and is planning French and German versions as well.

Customers can visit the site at any time of the day or night and download the latest versions of the software and documentation. Each time there is an update, Reflex sends an e-mail to its customers and tells them there is a new version available from the company's site.

No password is needed for access. Thus anyone can download the software. On the other hand, only users of Reflex instruments would have any use for it.

The cost is almost negligible compared with previous distribution. Moreover, the company gets its information out more quickly and is spared the time-consuming work of copying floppy disks, printing documentation and preparing courier despatches.

As far as possible, customer support is also run on the Internet. If a problem arises, a file can be sent straight from the measurement instrument to Reflex in Vallentuna via the Net. It can then be analysed immediately. If there is a software problem, the file is forwarded to the developer, GeoMEM Software in Scotland. Previously, the file had to be sent back and forth on a floppy disk and it could take a week or two before the fault was corrected. In view of the high cost of stoppages, the problem could be extremely expensive.

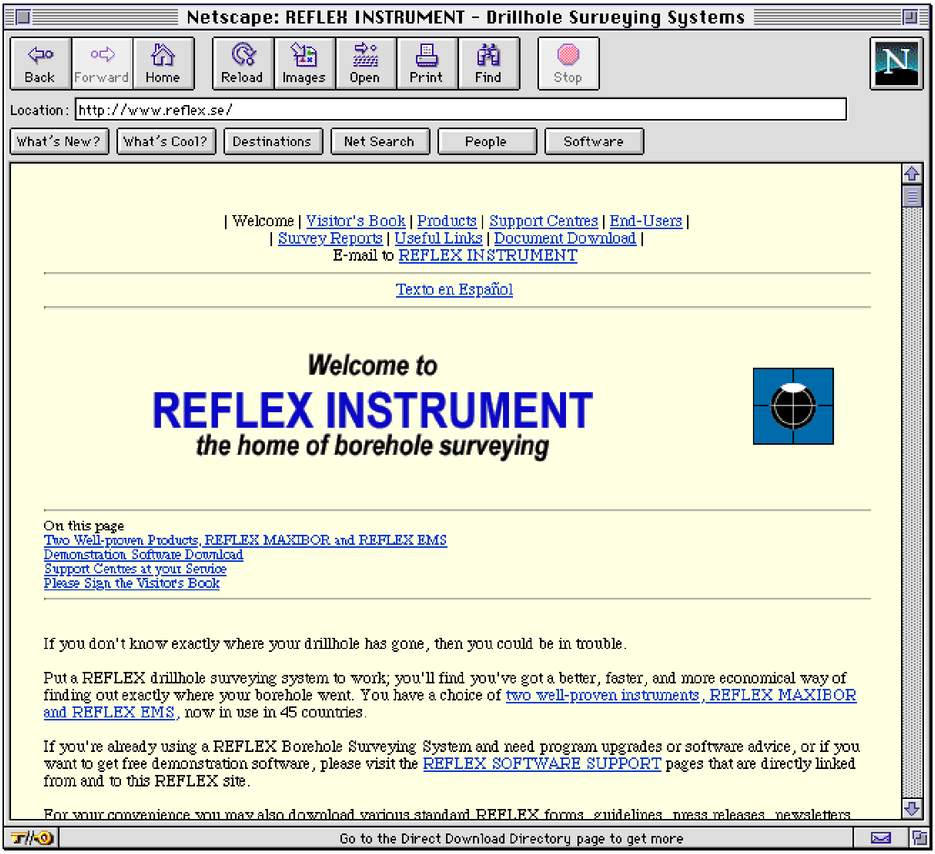
Greater loyalty and new customers

"By solving problems almost online, both we and the customer save money," Ericsson says. "What's more, they like us much more because of the better service," he adds. In his view, this has helped strengthen customer loyalty and brought in new customers.

Naturally, the Web site is also used for marketing. All the sales material, demonstrations and customer references are collected together. Wherever Reflex appears, whether in brochures, advertisements in the international trade press, or at trade fairs, there is an invitation to visit the company's site. They have also made sure there are links from related sites, such as those of mining chambers of commerce.

On average, the site is visited 2,500 times a day. It also generates many tender enquiries, sometimes up to ten in a day. "We have tender documents ready in the computer, so all we need do is change the address," says Ericsson. "In that way we can manage the lot in half-an-hour or an hour the same day."

The company also actively seeks out potential customers on the Net and sends them an e-mail with a brief presentation and reference



Reflex Instrument sells borehole cameras, mainly to the mining industry. There are customers in some 40 countries and many of the contacts with them are via the Internet.

to more information on the Web. It finds the names and e-mail addresses on the mining companies' sites. Direct contact makes marketing more effective and the message reaches the right person from the start.

"It has worked incredibly well and also resulted in a lot of business. But there is more to do," Ericsson states. "Our ambition is for each one of us to contact 20 companies a week," he continues and is convinced that many companies would have a lot to gain if they worked in the same way.

Moreover, the company saves money as it does not need to print and send out as many brochures as before. Otherwise, with postage, each one sent costs about SEK 50.

More profitable

Thanks to the Internet, Reflex Instrument has been able to establish a multinational business that would normally have required considerably greater financial and human resources. It has helped increase sales and strengthen the company's position in the market and by no means least of all, has raised profitability.

Reflex has a profit margin of 20 per cent, part of which can be directly ascribed to the Net. It saved nearly half a million kronor in 1997 simply by distributing updates and documentation that way and not having to send out so much advertising material. That was equivalent to some 15 per cent of turnover, or a third of the profit of SEK 1.5 million. To that can be added lower personnel costs. If the business had been run on traditional lines, the company would have needed another three or four employees. This can be compared with the cost of the Web site, which has so far been around SEK 15,000 a year.

Discovering new opportunities

As with many others, Reflex's staff have gradually discovered new opportunities in using the Net. "To be successful today, you must always keep a step ahead of the competition," Ericsson says. "We're always looking for possible ways of using new technology and that requires access to quick information," he continues. Nowadays he also uses the Internet as an aid in product development.

"As we patent our systems, we must first check what already exists in the world," he points out. "It was tremendously expensive and time-consuming before. A search could take seven or eight months and cost SEK 200,000. Today, we can do it ourselves in a few seconds. For instance, all the US patents from the past 20 years are on the Net."

A lot of development time can be saved and the risk of backing the wrong horse is reduced by not working on problems that someone else has already solved. Claes Ericsson maintains that small and medium-sized businesses have most to win.

Competition on equal terms

"Before it was only possible for big companies. They had scouts out there all the time, or technical attachés who monitored the market for them full time. Today, it belongs to everyone. We small business people can now compete on the same terms and can also act faster as we can make quicker decisions."

Even if Reflex Instrument has already gone far in using the Net as a marketplace, it has several ideas for improvements. First in line is to put all training material on the Net. With the aid of a new technology for distributing video, customers will be able to download instruction films. Claes Ericsson expects to raise the level of service and at the same time save more money that can be used to visit customers and for important sales trips instead.

www.reflex.se

The new business logic

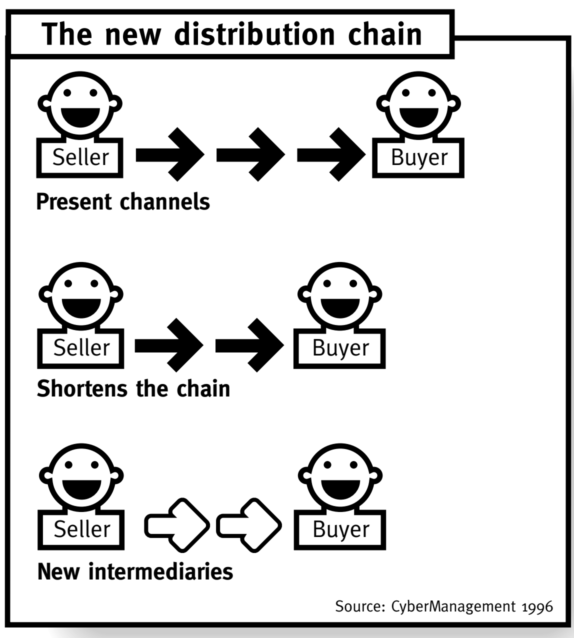
The New Economy, network society, digital nervous system, Business 2.0, Webonomics, the friction-free economy, real-time community, Wireless World, Interactive Company, Cybercorp...

There will soon be as many labels for what is happening in the wake of developments on the Internet as there are consultants and authors on the subject. But they all express the same thing: a new business logic.

As must be evident by now, the Net as a marketplace is changing the basic conditions for the business community and thus the conditions of business enterprise itself. That is why we can see how companies in Sweden and abroad are in the process of trying out and developing new business models.

The Internet not only makes it easier and cheaper to distribute information and establish closer contact with customers and suppliers. It also changes the old chain between them.

"It's as though someone has switched on a light in the room," says Anders Lindqvist, Managing Director of Telia Electronic Commerce. "Suddenly everyone can see what they are paying for. We illuminate what the stockbroker and



The Internet exposes and changes the old distribution chain from seller to buyer. Intermediaries disappear, shortening the chain, but new ones appear who do the job better.

The Net as a market means new business logic. In the US, Cisco has understood this and is a textbook example of how the Internet can be used in business.

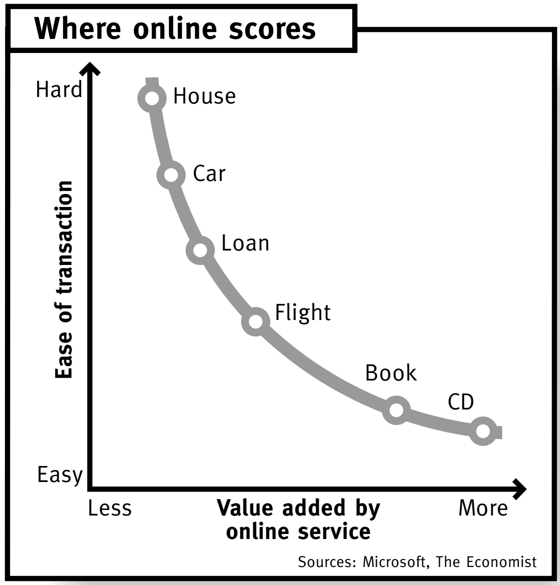
travel agent, for instance, are really doing, which brings enormous pressure to bear on value-creating services."

The result is a new, Internet-driven chain. But it also creates new opportunities for organising a business and producing value. When every link in the chain is connected electronically, the previously sharp dividing lines between supplier, manufacturer, distributor and retailer are erased. A number of intermediaries disappear. Their vitality is determined by the extent to which they provide added value. The requirements differ from one sector to another, as can be seen from the diagram.

At the same time, new intermediaries are appearing. An example is *bokus.com*, which should be designated a logistics company rather than a bookstore in the traditional meaning. Another is *auto-by-tel*, which is a new type of go-between between the motor trade and its customers.

Established structures changed

When the dividing lines are displaced, it also means the established structures in an industry are changed. For some, it may mean the foundations of their business are undermined. For others, it means painful readjustment to new conditions.



The ease or difficulty of a transaction determines how much added value there must be to make it worthwhile selling a good or service on the Net. Books and CDs require different values – such as a large selection, low prices, being able to listen before buying – to compete with the traditional trade.

Developments in the personal computer trade are clear evidence of this. Until now, sales have been mainly through distributors and retailers. But the US company Dell has changed the competitive situation throughout the industry by eliminating the traditional distribution channels. Instead, Dell has redefined and refined the model for direct sales and distribution. It has achieved considerable competitive advantages by using a sophisticated logistical system that makes it possible to produce computers to order and configure them according to the customer's wishes.

Sales on the Internet amounted to 5-6 million dollars a day in 1998 and at the turn of the century, Dell expects half its business to come that way.

In just four years, this has enabled Dell to almost triple its market share to over ten per cent and advance to the world's second largest PC supplier after Compaq, but ahead of IBM and Hewlett-Packard.[1]

More profitable than competitors

But Dell is not only growing faster than its competitors. Its profitability is higher because of more efficient sales and distribution. This has

[1] Games dealers play, Forbes October 19, 1998.

forced Compaq, IBM and others to review their organisation and also start to offer direct sales on the Internet. It has not been trouble-free as they are still highly dependent on the traditional channels.

The Internet not only changes the way of doing business. It also influences the way companies organise themselves and work internally in everything from manufacturing to customer service and personnel matters.

Another US company, Cisco, is the leader in data communications and one of the fastest growing IT companies in the country. The Internet has been an integrated part of every aspect of the business since 1996. Over 60 per cent of Cisco's sales of 8.5 million dollars are made via the Net. More than 70 per cent of technical-support queries are dealt with via the Net, not the phone. It has increased productivity in customer service by 200-300 per cent. In addition, 55 per cent of the employees' reports come via the Net, not by normal mail. In all, Cisco estimates it will have saved 360 million dollars in 1998 by using the Internet.

"If other companies don't learn to work this way, depending on what their competitors do, I have a question whether they will survive," says Cisco President John Chambers in a US Today interview.[2]

General Electric is usually also held up as one of the forerunners. In 1997 its lamp division bought a billion dollars-worth of products on the Net. It saved the company 20 per cent on the cost of materials as more suppliers were given the chance to tender and GE could force prices down. Moreover, the process was considerably less demanding on staff resources than the traditional method. At the turn of the century GE expects its purchases on the Net will be five times greater at five billion dollars.[3]

Ericsson connects partners

A further example is Sweden's Ericsson Mobile Systems, which is in the process of connecting its 40,000 retailers and service shops throughout the world to the Internet with the aim of providing quicker and better service. By using the Net, Ericsson will obtain a direct channel to its partners for distributing manuals and news, but also the possibil-

---

[2] Cisco embraces Internet economy, USA Today September 23, 1998.

[3] The Emerging Digital Economy 1998, *www.ecommerce.gov*

ity of quickly receiving information about faults in phones or changes in the market. Retailers can also get immediate help in diagnosing and attending to faults. In addition, they can update phones with new software. Until now, they have had to send the phones to an authorised service workshop or straight to Ericsson, which takes time and is expensive. In nine cases out of ten, faults can now be remedied on the spot.

It means great savings. According to Ericsson Mobile Systems the investment will be repaid in 4-8months.[4]

The following sections describe how three companies in different industries with different backgrounds, size and preconditions, have successfully strengthened their position in the market by active use of the Internet, both internally and externally.

---

4 *Internetservice ska rädda ryktet* ("Internet service will save their reputation"), *Veckans Affärer* October 5, 1998.

Axis Communications

An unknown Swede among the world's elite

Question: Which Swedish company is the world's number three in its field – printer-server technology – after Hewlett Packard and Intel?

Answer: Ericsson? No. Axis Communications in the southern Swedish university town of Lund.

The company is one of the fastest growing in the country with an average annual growth of 45 per cent in the past ten years.[1] [2] It has won lots of prizes and been named Sweden's Company of the Year and IT Company of the Year.

A steady stream of visitors come to study it in the Ideon research village in Lund and it was recently the subject of a doctoral thesis.[3]

But Axis Communications would hardly have achieved such success without the aid of the Internet, both internally and externally. "I don't think we'd have existed today if we hadn't done it," says Martin Gren, Deputy MD responsible for new projects. "As an IT company, neither has there been any alternative for us," he goes on.

The young Swedish company that competes with US giants like Hewlett-Packard and Intel, has also been noticed by Professor Mary J Cronin, author of several best-sellers on Internet commerce.[4]

Axis was founded in 1984 by Martin Gren, then studying electronics at the Lund Institute of Technology and Mikael Karlsson, a graduate of the Stockholm School of Economics and the company's MD. They are still the biggest shareholders with a combined holding of

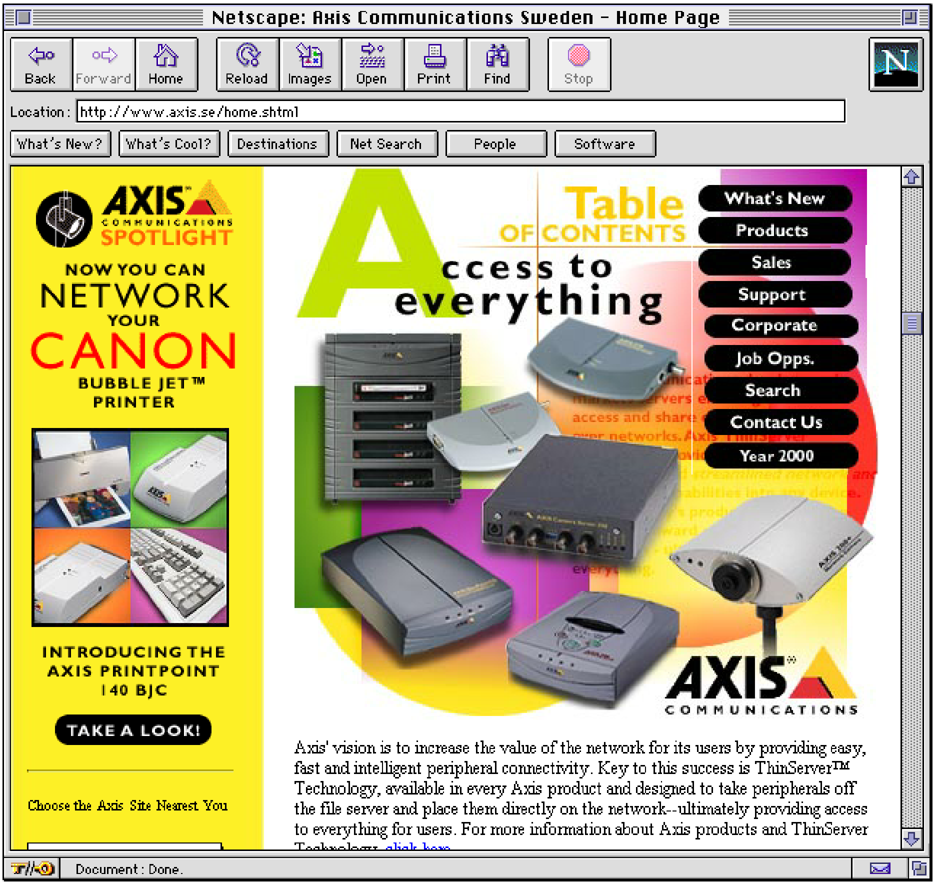
---

1 On several occasions in the 1990s Axis has been among the top ten in *Svenska Dagbladet*'s and Ahrén & Partners' list of Sweden's fastest growing companies.

2 Axis Communications Annual Report 1996-97.

3 Kerstin Eneroth: "Strategy & Competence Dynamics – a study of Axis Communications". It was presented at the University of Lund in December 1997. *Sydsvenska Dagbladet* December 16, 1997.

4 Mary J Cronin: Global Advantage on the Internet, pp 139-142.



The Internet forms the backbone of Swedish IT company Axis Communications. The Net is used to communicate with customers, retailers, distributors and the company's own employees around the world.

close to 60 per cent. Other shareholders include the staff and financiers Dag Tigerschiöld and Johan Björkman.

Sales to 60 countries

Since it started, the Lund company has grown into an international Group with more than 300 employees in twelve countries. Its turnover in 1997-98 was SEK 522 million, which was over 30 per cent up on the previous year. Profit after net financial items was SEK 15 million. The company sells to more than 60 countries through distributors and retailers. In only its third year, exports accounted for 95 per cent of total sales.

Axis's first product was a protocol converter that enabled a PC-printer to be connected to IBM mainframes. The solution was simpler, but also considerably cheaper, than what the manufacturers themselves could offer.

For a long time the business also concentrated on the IBM market. But after a strategic change of direction was decided on in 1992, it was broadened to network-based printer servers. The first multifunctional printer server was introduced the same year. It meant a group of users with different types of computers – PC, Mac, Unix – connected to the same network, could share a printer. The server helps the printer understand which software and which computer is being used.

A new and tougher competitive situation followed this repositioning, one of those involved being Hewlett-Packard, the second biggest IT company in the US with over 110,000 employees. But Axis also achieved a definitive breakthrough. In 1993-94 alone, sales almost doubled from barely SEK 70 million to 130 million. The rapid increase in the number of local area networks in the world gave a helping hand.

Number three after HP and Intel

Since then there has been consolidation in the industry. The number of manufacturers has dwindled from about 30 to a mere handful.[5] Today, Axis is number two in printer servers in Asia (after Intel) and in Europe (after Hewlett-Packard) and number three in the world as a whole. Its market share is estimated to be over 25 per cent, with some 400,000 printer servers sold. They are priced at between 160 and 800 dollars and the main customers are companies and organisations with LANs.

The product range, and with it the market, has gradually expanded further still. A storage server was introduced in 1995, enabling users in a network to share information stored on CD-ROMs. Market share here is put at more than 50 per cent. 1996 saw the arrival of a digital network camera, the Axis WebCamera, and a server which makes it possible for everyone in a network to share a scanner, was released in 1998.

Mikael Karlsson sums up Axis's vision with the slogan, 'Network

---

[5] *Datavärlden* July 6, 1996.

Access to Everything'. He says it should be possible for every appliance in office, factory and home, to be connected to a network as an IP and Web server-based piece of apparatus. This means users can connect up to all electronic apparatus through one and the same user interface regardless of place and equipment (PC, laptop, network computer, or mobile phone).[6]

Own technology

It should also be possible to control and configure the equipment with Web technology. The aim is to make it easier for the user and increase the benefit and value of the network.

At the heart of all the products is a unique ASIC circuit and software developed by Axis and which makes it possible to collect all functions together on one chip. The products can be made smaller and at the same time give better performance. The architecture is marketed under the name of Axis ThinServer Technology.

Axis collaborates with several of the world's leading IT companies, such as Cisco, Microsoft, Oracle and Sun Microsystem. IBM and also Hewlett-Packard sell parts of the product range, but under their own name.

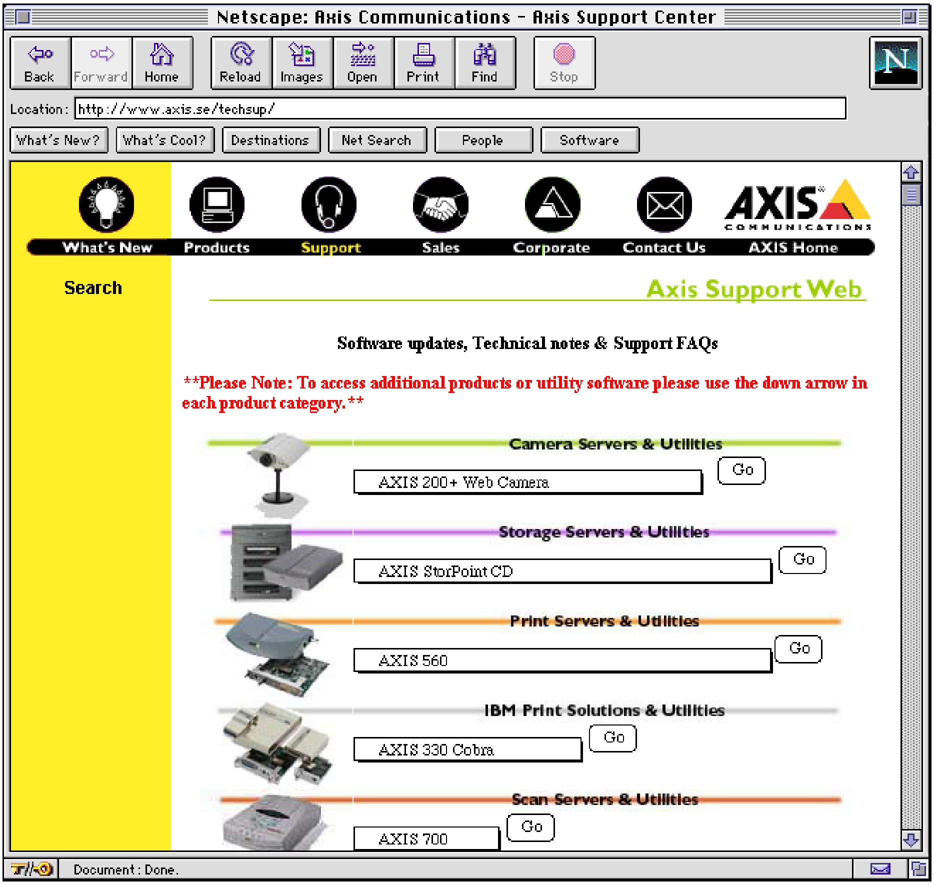
Product development is in Lund where 150 people are employed. Several of the central functions are also located there, apart from marketing and business development. The Marketing Manager works from the Boston office, which was opened in 1987 and now employs some 60 people, while the Business Development Manager is in Silicon Valley. This state of affairs is motivated by the fact that the US is the biggest and most important market, that all the competitors are there and Axis wants to be regarded as an American company. Other employees are dispersed in the various sales offices, of which Tokyo and Hong Kong are the biggest.

On the Net since 1987

Since it started, the company has focussed on development, marketing and sales. Manufacture is undertaken by Partnertech in the town of Åtvidaberg, Electrolux Electronic in Vellinge, and also outside Sweden in Finland and Thailand.

---

[6] Axis Communications' Annual Report 1996-97.



Customers can download the latest software updates from the Axis Web site.

Efficient communications are of decisive importance in such a highly decentralised organisation. Axis was connected to the Internet as early as 1987 when it was still mainly an academic phenomenon. E-mail has been the prevalent form of internal communication ever since, while customers have also been able to communicate with the company by e-mail since 1989.

Formally, the first internal Web server started in 1994. But the work had begun the year before when the very first Web browser, Mosaic, reached the market. This was long before Netscape was even thought of and the number of users in the world could still be counted in hundreds.

The first Web editor was employed in mid-1994, to work full-time on maintaining and developing the Web server. After a year's experience of the internal site and much work on developing and testing its contents, the external Web site was officially launched in March 1995.

Backbone of the company

The volume and scope have increased considerably since then and now the Net is literally the backbone of Axis's business.

Practically all company information is stored on the internal Web site and all employees contribute to it: bookkeeping, sales figures, market plans, detailed technical documentation and new projects. There are also news groups for marketing, customer support, product development and other functions and it can all be accessed by all employees at all offices.

"It means I never have to take any documentation with me when I'm travelling," says Martin Gren. "I only have to connect up to the internal server and download the material or presentation."

New employees start by learning how the Web site works. There is a special introduction program with a large number of links. "It's a quick way of teaching people the organisation," Gren comments. "After a couple of days, they know the company pretty well."

In the same way, the public Web site has developed into Axis's most important channel for market communication. Axis has no chance of competing with Hewlett-Packard when it comes to resources for traditional marketing. The same applies to setting up regional offices, employing service staff and recruiting distributors throughout the world. But conditions on the Internet are more equal. Thanks to the Web, Axis can reach its customers directly with information about its products and services on the same terms as its competitors.

All information accessible

The Web site is aimed at customers, retailers and distributors. It contains news about products, technical specifications, manuals, addresses of purchasing outlets with links, and information about the company, its technology and support. Customers can also freely download new software versions straight from the Net. And they can subscribe to news and receive an e-mail with each update.

"This is a substantial improvement on what it was before," Martin Gren says. "In the past, we sent updates to the distributors, who then looked up the customers. And it was done only if absolutely necessary."

In addition, there is special information for partners, including presentation material and market information. The company also requires its distributors to have a presence of their own on the Internet.

Axis now has two full-time Web editors, one in Sweden, one in the US. But the product managers and customer-support staff also work actively to update information.

The traffic has increased greatly, from an average of 500 visitors daily in 1995 to 150,000-200,000 hits a day in 1998. To deal with this growth there are four Web servers around the world – in Sweden, the US, Japan and Singapore.

Technically, there is nothing to stop Axis from starting to sell its products over the Net straight to the end customer. But the management have chosen not to do so. "Of course it has been discussed," Gren states. "Just as it has by everyone else. But the problem is we would then bypass our traditional channels. And we are not mature enough to take that step. On the other hand, you can order on the Net in the US, but the transaction itself is made through retailers."

Brings in more business

Martin Gren is nevertheless convinced that the Internet is a great help in the company's sales. "Many people look at the Web first and make comparisons before they decide to buy our product. This is particularly true of big customers. So I could imagine that up to half of all purchasing decisions are made that way. Then there are those who search for, find and get to know about us because we are on the Net. It could amount to 15-20 per cent of the business. Moreover, we also get new retailers that way."

The Internet also fulfils an important function in communication with customers. Opinions and suggestions for improvements and new products come in every day.

"In the past, the retailer was responsible for support," Gren says. "But the trend is towards the manufacturer taking over more and more. We can be much better in that respect. Today, it can take up to 24 hours before the customer gets a reply. That's good compared to most other industries, but we're not satisfied."

www.axis.se

Interflora

Blossoming business in a new market

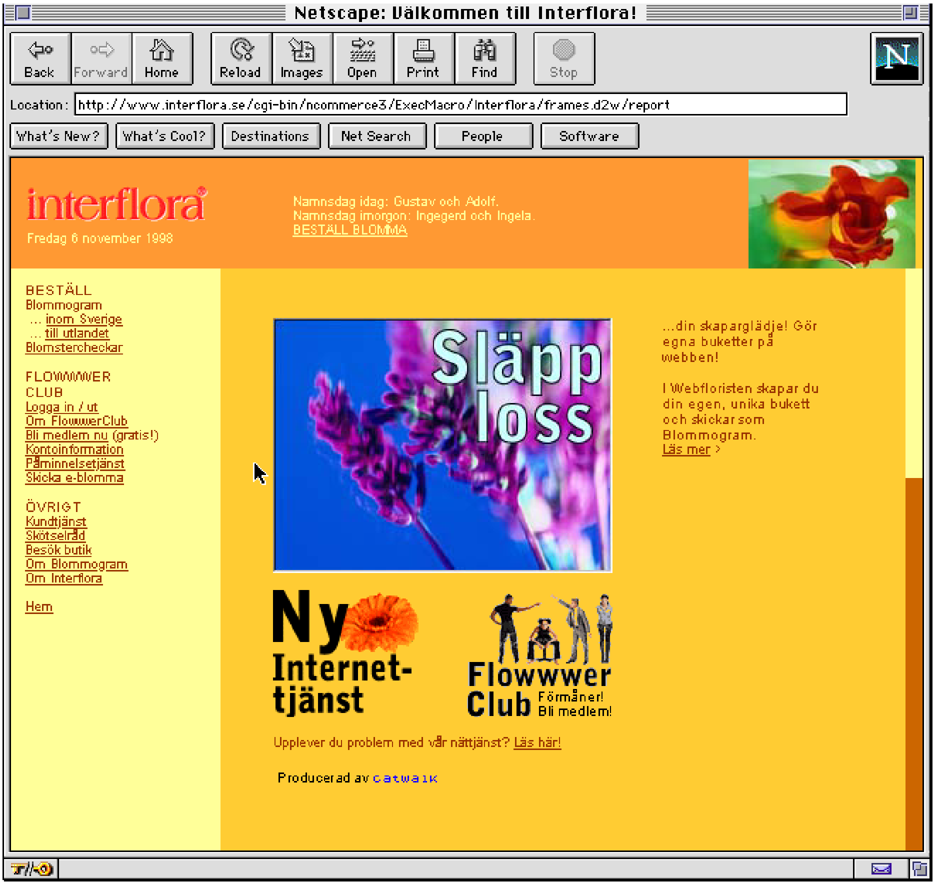
Jan Johannisson realised the problem. The most faithful customers, middle-aged women, are becoming fewer and fewer. To some extent, those born in the 1940s are a lost generation. Changes in social habits and new sources of competition had led to lower sales for several years. Something had to be done.

It was then that he became a pioneer in the new marketplace by selling flowers on the Net. "You mustn't get stuck in old structures, but must dare to break loose and think in a new way," he states. "But certainly, it's an intellectually laborious process. Especially at my age. The Internet and the new marketing opportunities it offers are as revolutionary as going from a planned to a free-market economy." Johannisson will be 60 in 1999.

Biggest supplier of flowers

He has been Managing Director of Interflora since 1981. It is a chain of more than 300 independent florists with a combined turnover of around SEK 1.2 billion. Centrally, Interflora has a turnover of some 200 million. The company does the purchasing and joint marketing. The organisation includes Sweden's biggest cut-flower wholesaler, a distribution company in The Netherlands, a wholly-owned finance company – Finfack, the magazine *Blomsterbranschen* and an "Interflora University" which trains more than 3,000 people a year.

Interflora is Sweden's biggest supplier of flowers and owns the *Blommogram* trade mark. The idea of sending flowers was introduced in Germany and the US at the end of the nineteenth century. It came to Sweden in 1923, when Interflora was formed. Apart from its 300 members, a further 450 florists form part of the *Blommogram* service. In their turn, they are part of an international link-up of 55,000 retailers in 135 countries.



Interflora has been highly praised for its Net store. A new service was introduced in 1998.

A multi-billion business

Plants are a multi-billion market. Cut flowers and potted plants are sold for more than SEK 6 billion in Sweden every year – probably much more as there are a lot of undisclosed sales. At the same time, the trade is undergoing thorough change. The specialist dealers certainly still dominate with about 60 per cent of sales. But Sweden's estimated 2,400 florists have lost a great deal of ground in recent decades to the supermarkets, which have succeeded in capturing a quarter of the market. The remaining 15 per cent is accounted for by market stalls, the IKEA furniture stores and similar outlets.

Many florists are struggling with poor profitability. Greater supply from new production capacity in the developing countries has put pressure on prices and with them margins.

Buying behaviour has also changed in recent years. Traditionally, women between the ages of 40 and 60 have been the biggest group of customers. But new habits have developed with the generation born in the 1940s. It is no longer a matter of course to give flowers when visiting and on special occasions.

"People always had flowers with them when they were invited out," says Jan Johannisson. "But today many take a bottle of wine or a jar of home-made jam instead. So we're facing completely new competition."

Shrinking group of customers

Neither is it as common as it was to send flowers thanking your hosts for their hospitality. Flowers on hospital visits were also a big market in the past. But shorter periods of hospital care have led to a great reduction. The same is true of funerals, where arrangements tend to be simpler and cheaper. In money terms, sales have been halved in ten years, from an average of SEK 12,000 to 6,000 per funeral. Many choose instead to donate money to memorial or research foundations.

Sending flowers has been affected most. It has diminished by some 20 per cent in the 1990s, or from 1.2–1.3 million orders a year to perhaps a million. Interflora claims it has about 75 per cent of the market, while its privately-owned competitor, EuroFlorist, has the remaining 25 per cent.

"That was when we realised we must change our *Blommogram* marketing," Johannisson says. "Our traditional target group was simply getting older and in danger of disappearing. We needed to fill up from below and therefore decided to aim at young people between the ages of 20 and 35 instead," he explains.

It is true that orders to send flowers account for only about eight per cent of the florists' turnover. But it is an important source of income on the margin. A *Blommogram* agent handles an average of 1,000 orders a year. Under international regulations, the florist forwarding the order receives 20 per cent, and the florist delivering the order 80 per cent, of the amount paid. In their turn, they pay a combined fixed and variable fee to Interflora, which provides the booking system and acts as a clearing centre.

Up with the times

It was at the beginning of 1995, while working on how to reach a younger target group, that Jan Johannisson had the idea of using the Internet. There were still few Swedes who had access to it privately, but in the US the efforts of companies such as PC Flowers and 1-800-Flowers had attracted great attention. And in November 1995 Interflora opened its Web site.

"To be honest, I didn't believe the Internet would turn into a big marketplace," says Johannisson. "The move was made mainly because we wanted to appear as though we were up with the times and give our products a modern image."

Neither was the investment particularly large. Jan Johannisson drew up the specification himself, planned the structure and decided what the service would include. Design and programming were then done by a Web producer in collaboration with Interflora's advertising agency. All together, the bill came to SEK 150,000, which was covered by the advertising account. The sales target was a modest 5,000 orders in the first year. This can be compared with the 700-800,000 *Blommograms* handled by the florists annually.

The start was hesitant. But sales picked up in the second half of 1996 after the service received publicity in the media. Subsequent progress has exceeded expectations even though there has been no real marketing. On the other hand, Interflora has been given a helping hand by winning several awards. The magazine *Datavärlden* named it the best multimedia advertiser of 1996. Scandinavian Interactive Media Event awarded it the prize for best interactive media strategy and the *Svensk Handel* trade association chose Interflora's Web pages as the best commercial site.

"If I had advertised to get the same publicity it would in all certainty have cost me 10-15 million kronor," Johannisson states.

More and more people order on the Net

In 1997 some 35,000 *Blommograms* were sent via the Internet. The figure was expected to reach 55-60,000 in 1998, equivalent to about 8-10 per cent of the total. With an average value of just under SEK 200 per order it gives aggregate sales of around SEK 10 million.

Urged on by success, Jan Johannisson now also believes in considerably higher volumes. With real marketing, 100,000 orders at the turn of the century is not an unreasonable target. It would be about 15 per cent of all *Blommograms*.

The Web site already has an average of 15,000 visits a week, soaring towards 100,000 in peak weeks. "Provided we get a sensible payments system, I therefore believe the Internet will account for 20-25 per cent of *Blommogram* orders within four or five years," Johannison states.

So far, Interflora has invoiced its customers after delivery. It works well. The will to pay is good and customer losses are less than two per cent. But handling demands a lot of labour and reduces profitability. And so the Interflora boss places great hopes in the new SET secure-payments system. Payment will then be direct and there will be no need to handle paper, at the same time that the risks are eliminated. However, profitability is already very good. The forwarding fee is SEK 65 per order. This includes delivery, on average SEK 47, but nevertheless makes a reasonable contribution to profit.

Men dominate

The statistics indeed show that Interflora has reached a new target group. Nearly 70 per cent of the Internet customers are men, some 30 per cent women. In the florist shops it is the other way round. On the other hand, it is not surprising as there are still more men than women on the Internet. But the proportion of young people is not particularly high. Only a third of the Net customers are 30 years old or under, a third between 31 and 40 and a third over 40.[1]

"How we deceived ourselves!" Johannisson exclaims. "But it makes no difference. From our point of view this group and the breakdown are absolutely excellent." Nearly half place their orders from home and nearly as many from work. Some order simply to see whether the system really works. But according to Johannisson the proportion of frequent customers is strikingly high. *Blommogram* customers usually send flowers three or four times a year. But on the Net there are people who have used the service ten-to-twelve times in six months. Nearly 40 per cent have found the service when they have been surfing and just over 20 per cent through publicity in the mass media. An estimated 40 per cent have never sent a *Blommogram* before.

"You can tell from the comments we get," he says. "People get in touch and think it's a fantastically good idea that you can send flowers. And we've been doing it for 75 years!"

[1] According to an Interflora questionnaire in 1997, 37 per cent were aged 30 or under, 31 per cent between 31 and 40 and 32 per cent over 40.

As already mentioned, the average value of an order is just under SEK 200, as against about SEK 250 in the florist shops. The difference is explained by the fact that there are fewer funeral orders and so far, there are not many corporate customers.

Ready-made bouquets most popular

The Web site offers customers a choice of about 20 different flower arrangements at different prices and for different occasions, such as weddings, illness or mourning. All are pictured. Special bouquets are made up prior to holidays and other occasions, such as St. Valentine's Day, when a lot of flowers are sold. The site also contains instructions on how to look after the flowers and advice on which are suitable and not suitable for different events.

Those who wish to can also make up their own bouquet and send the order over the Net. But most people choose from those shown. And it is not just because it is simple and convenient. More often than not, men do not know much about flowers. On the Net they can choose from the alternatives without exposing themselves in front of everyone else in a flower shop. Likewise, they can write their greeting to the recipient under perfect anonymity.

"Many people think it's embarrassing to dictate a declaration of love to a shop assistant. I think that's also a reason why it's mainly men who use the service," says Jan Johannisson.

The Internet venture was made easier by the fact that the infrastructure and distribution system were already in place. Interflora was an early computer user. Punch cards were introduced as early as 1958. Since 1983 orders have been handled automatically in the organisation's own system, under which all *Blommogram* agents are equipped with a specially designed terminal. Moreover, there is now a PC in all the chain stores and from the autumn of 1998 also at all *Blommogram* agents. But nevertheless, it was not obvious that Interflora would become one of the pioneers of Internet commerce.

"No, not at all. I'm an economist, but worked at DataSaab at the end of the 1970s," says Johannisson. "Databases were among the things I wrote. Perhaps it played a part."

Tensions in the organisation

Neither was there anyone in the organisation who had any objections to start with. But as the volumes increased, anxiety has spread that the Internet will compete with the flower shops. It is true that the greater part of the order price goes to the florists. But they lose the forwarding commission of 20 per cent, which stays with Interflora. Jan Johannisson admits that there is resistance, though only among a minority.

"But it's not a case of either/or," he states. "We must take our starting point from what customers want. And the trend is the same throughout the world. The number of visits to the florists is declining. More and more customers choose to buy flowers by phone or over the Internet. But for us as what is basically a membership organisation, it is not to be wondered at if it is creating tensions."

In Switzerland, about 40 per cent of orders are placed centrally by phone. In the US, the telephone and Internet account for 20-25 per cent and in Britain about 15 per cent. So far, the figure in Sweden is only five or six per cent. Apart from the Internet, orders can also be placed by using a cost-free phone number. But the telephone trade is very modest.

In addition, Interflora's investigations show that nearly 70 per cent of the Net trade consists of sales that would otherwise not have been made.

Greater competition

At the same time, competition for Internet customers is likely to increase in the future. Until now, Interflora has been almost alone in the Swedish market. The challenger, EuroFlorist, was ahead of Interflora with a Net store in September 1995, but it never had any great penetration and closed down after a while. A restart was made at the end of 1997, however, when a risk capital company, Ledstiernan, including former SAS CEO Jan Carlzon, became a part-owner with the objective of developing the Internet business.

But Johannisson is firmly resolved not to lose the advantage and has redoubled efforts to develop and improve the Internet service. For instance, the site now not only lets customers make up their own bouquets, but also see what it costs as flowers are added. Interflora has also introduced a customers' club giving members discounts and various special offers, the possibility of opening a standing account and a larger selection of ready-made flower arrangements. A new computer system has been introduced in which all 750 member florists have got new computers with an ISDN connection. The new system, an Intranet, enables Interflora to do the bookkeeping for individual florists centrally if they so wish, for example. Each retail outlet has its own Internet address and can build up its own Web site through Interflora's central service. The aim is to increase customer loyalty as well as the florists' commitment.

"Jan Carlzon is now my best argument with the *Blommogram* agents," says Johannisson. "It shows that if we don't take advantage of the new opportunities, someone else will. At the same time, I'm grateful that we got in so early. We've learnt a tremendous amount and now have a better understanding of what is happening in the market than if we hadn't been in the thick of it ourselves."

www.interflora.se

Busiga Barn

The secret behind the invisible clothes

Busiga Barn ("Mischievous Children"). Those present at the award ceremony pricked their ears up with wonder when the runner up for the best multimedia production of 1997 was announced. The winner, the Wallenberg company Investor, was well-known and an obvious candidate in the Products & Services category. But hardly anyone had heard of the firm that came second.

Perhaps it was not so strange. *Busiga Barn* is a young company in Stockholm with eight employees designing and marketing children's clothes.

Initially, they were sold only by mail order. Then also through some 50 retail outlets, and from the autumn of 1996 on the Internet as well. It was for this that the company received its award.

Way of growing

Otherwise clothing is not the first thing one thinks of in connection with electronic commerce. Buying clothes is not like buying known and standardised products such as books or CDs. Most people want to feel the quality and try them on to see if they fit properly before they make their minds up, and that is not possible on the Net. It is why clothing comes far down the list in assessments of the growth of on-line shopping.[1]

But for *Busiga Barn*, which increased its sales in 1997 by over 70 per cent, getting on the Net was nonetheless a natural step. "We were forced to grow as fast as we possibly could to get up to a turnover that covered our costs for design, manufacture and catalogue production," says Lis-Marie Hjelte, the company's Managing Director.

Together with Monika Ekervik-Hedman and Carolyn Gallego she started *Busiga Barn* in 1991. The three of them, all with previous know-

---

[1] See Morgan Stanley, Internet Retail Report, April 1997 *www.ms.com*

Busiga Barn's Internet store won the Guldknappen golden award in 1997.

ledge of the trade, gave up their jobs with the aim of doing something about the dreary supply of children's clothes. Their idea was to make and sell colourful garments that were fun and of high quality. Starting out with just two sweaters, the business has grown into four collections a year for children up to the age of ten.

Busiga Barn designs the clothes, sometimes with the aid of outsiders, while they are made up by garment manufacturers in Europe. From that it can be concluded that the company does not compete in the low-price market with giants such as H&M and KappAhl. Its competitors are the Polarn O. Pyret chain and small mail-order companies such as Denmark's FunnyKids.

Tough industry with small margins

The main customers are families with young children, good incomes and an awareness of quality and the environment. But it is nevertheless a tough industry with squeezed margins. Children's clothes are also a special product in that the clientele must continually be renewed as youngsters grow up. And so marketing is a very big item, on a level with staff costs.

"You have to be out there and fight and be seen all the time," Lis-Marie Hjelte states. So when friends suggested in the spring of 1996 that *Busiga Barn* should go onto the Net, they saw it primarily as a marketing channel. The target group was right too. If anyone had access to the Internet it was high-earning families with young children, i.e. their prospective customers.

They could not afford to spend a large amount, but decided to try anyway. In view of the money other companies have put into it and the award they received, the total of about SEK 70,000 that they invested in 1996 and 1997, would seem to be modest.

The level of IT maturity was already high in the company, which made it easier to decide. In 1993 the owners had taken a strategic decision to use IT in developing the business. Infrastructure in the form of systems for invoicing, customer records and catalogue orders, was already in place.

Busiga Barn started by putting pictures online and describing about 20 garments. But the response was not particularly encouraging. "We certainly got an incredible amount of publicity, but it didn't bring in so many sales," says Lis-Marie Hjelte.

Despite this, they decided to continue. But the pictures were removed. On the other hand, the order coupon, which is an exact copy of the one in the mail-order catalogue, remained. Instead of building a virtual store, *Busiga Barn* aimed at establishing the Internet as a channel of communication mainly with old customers, but naturally with new ones as well. And after these changes, traffic increased greatly.

"More and more of our faithful customers take the catalogue, sit down at their computer and order, instead of sending in a written order as they did before," Lis-Marie says.

It is also something the company encourages. Customers who place orders for SEK 500 or more on the Net get a discount of SEK 50. Moreover, the entry level for qualifying to join the customers' club is lower for Net customers. And orders over the Net have increased greatly, from some 15 per cent of the total in the autumn of 1997 to over 25 per cent a year later.

Hope for 40 per cent

"Our hope is that we'll get up to 35-40 per cent in 1999," says Lis-Marie. "Even if it perhaps doesn't increase our total sales, we save an

Simplicity is characteristic of Busiga Barn's Web site. It has made an increasing number of customers order electronically.

incredible amount of time and effort. It means we can grow more without having to incur extra costs," she continues. "At the same time, we have direct contact with our customers, which lets us carry on a personal dialogue with them and work to maintain good relations."

This takes several forms. Every order is confirmed by e-mail. The site contains detailed information of the company's products, environmental and quality work and manufacture. There is a special section for children where various activities such as colouring their own sweater are regularly arranged. Each month *Busiga Barn* also sends out a letter telling customers what is happening in the company and about coming collections and special offers. It has attracted much attention, which can be seen from the amount of incoming e-mail. And that in turn makes demands on rapid and efficient service.

Impatient customers

"There's one big difference between these and other customers and that is that they are much more impatient," Lis-Marie Hjelte states. "As soon as we have a technical problem, it's noticed. So if you've started on the Internet, you have to keep what you've promised. If you fall short, you lose everything you might have gained."

The Internet service has paid for itself more than well through lower postage costs. On the other hand, Lis-Marie has not worked out what it has meant in the form of greater competitiveness and profitability. "I was once asked what it costs to sell on the Net compared with selling in a shop or by mail order," she says. "But that's of no interest to us. The Internet cannot replace other channels. On the other hand, it's an important complement. In addition, it's impossible to work out the exact value of greater customer loyalty."

New customers

How have they fared in attracting new customers? Here too, a great increase has been noted, particularly with regard to orders for the catalogue, which have risen by 30 per cent.

"When we follow them up we see they often become buying customers at the next stage. So for us the site has been enormously successful from that point of view as well and brought us customers we otherwise wouldn't have had."

They include people abroad. Although the company has not actively marketed itself outside Sweden, the Web site has resulted in orders not only from Europe, but also the US and Japan. A majority are expatriate Swedes, but others have managed to find *Busiga Barn* as well, despite the fact that all information is in Swedish.

The volumes are certainly not particularly large, but sufficient, so it may be worth starting an English version.

Enquiry from Australia

"We recently received an enquiry from a woman in Australia who wanted to be a retailer," Lis-Marie says. "Now that's getting really interesting! When the day comes to find franchise-holders abroad, the Internet will be an important aid for us."

Meanwhile, *Busiga Barn* is continuing to develop its Web site. It may reintroduce the illustrations, but not the entire catalogue. "The overview that a printed catalogue gives you is lost on the Net," Lis-Marie states. "But I could think of having one or two pages presenting special offers."

Busiga Barn has also started to use the Net a little in its contacts with suppliers and to send drawings. So far, it is only with the largest ones as the others still do not have Internet access. But Lis-Marie believes the advantages are obvious. "It's not only a cheap way of communicating," she says, "but also makes ordering safer. It's one thing to write that the colour should be red and another to show exactly what shade we mean."

www.busigabarn.se

Reflections and visions

Information technology, and the Internet in particular, open up new opportunities for companies to market, sell and distribute their products and services, to reach new customers and communicate with those they already have.

This applies to all companies, not least small and medium-sized businesses which can reach a considerably greater market without needing to invest in an expensive and extensive sales and marketing organisation.

Only three or four years ago the outcome seemed uncertain. But today we can see how the Net is rapidly developing into the world's first totally unbounded marketplace. It already embraces more than 100 million people. Forecasters say the figure will be 300-400 million soon after the turn of the century and climb to something between 600 and 1,000 million in 2003-2005.

Far-reaching consequences

This will have far-reaching consequences for individuals, the business community and society. The readjustment has been compared with the industrial revolution, or the time when motor vehicles replaced horse-drawn carriages. Voices are now being raised to say the effects will be even greater. With a simple push of a button and the speed of an electric impulse, both companies and private persons can reach a global market. For the first time in the history of mankind, distance and geography are no obstacle.

For companies there are both opportunities and threats. Competition is affected and traditional roles in trade and industry are undergoing change. New marketing and distribution channels allow producers to establish direct contact with their customers. Middlemen such as brokers, agents, wholesalers and retailers thus face greater competition and risk becoming superfluous.

At the same time, there is room for new players whose business is based on the Internet and the new communications opportunities. These intermediaries, or ‘cybermediaries’, can appear in different guises. They may be digital marketplaces such as Scandinavian Online’s *Passagen* and the Post Office’s *Torget*, portals such as Yahoo and *onlinetrader.com* with information and links to Internet services, or electronic trading companies that compete with established players by offering goods and services such as those of *amazon.com* or the Internet broker E*trade. They not only compete with the traditional middlemen, but also threaten to take over functions from those who now produce the goods and services.

The purpose of this book has been to describe and document how the Internet as a marketplace is changing the underlying conditions for business enterprise, and what the consequences are for distribution and competition.

From what has emerged so far, it is possible to make a number of reflections and suppositions about developments in the short term, the next few years.

1. The electronic marketplace is primarily a way of doing business. The technology plays a subordinate part. Common to the companies that have achieved success is that they regard the Internet as a means and not an end for their business operations.

2. To achieve success on the Net it is necessary to offer something more and better than exists in the physical market. Those who cannot create added value are doomed to fail. How much ‘more’ and ‘better’ depends on the industry and what the company has to sell. Looked at the other way round, those in the physical market who cannot offer more added value than there is on the Net, will find it difficult to survive.

3. It is even more difficult to achieve and defend competitive advantages on the Net. That is partly because developments are so fast, partly because it is so easy to copy what is being done. To establish a physical global organisation requires much time and money. It is much easier on the Net.

4. The biggest threat to the middlemen – wholesalers, distributors, retailers, agents and brokers – is not that they risk being wiped out. It is that other intermediaries will turn up who can perform the same tasks better and cheaper.

5. What sells on the Net is information. Assuming they have nothing to gain but low prices, nobody wants to waste time by chasing round and comparing prices of products which provide little information.

6. Strong trade marks are even more important on the Net than in the physical marketplace, particularly if the company is in the consumer market. That is because the supply is so much greater, which makes it more difficult to hold your own and build new trade marks.

7. You can never rest on your oars in the electronic marketplace. A presence on the Net requires continual development and renewal.

8. Companies will not use the Internet so much to acquire new customers as to retain their old ones. The electronic marketplace creates unique opportunities for customer relations and service.

9. 'Bit business' in which the product consists of information that can be distributed electronically, will be most affected by the Internet in the short term. The same applies to services with a large information content, including financial services (banking, equity trading, insurance), entertainment, car dealing and estate agency business.

   Another category where the Net will reach a considerable volume consists of standardised, well-known and easily distributed products such as books, CDs, videos and computer hardware and software.

   On the other hand, it will take a long time for more complex products like food, clothing and furniture to attain any large volume on the Net.

10. The winners in the electronic marketplace will be those with the strongest trade mark, the lowest costs and the most efficient business.

11. So far, corporate IT investment has had the primary aim of making internal operations more efficient. In the next few years, an increasing part of the budget will be redirected to developing relations with external customers and suppliers.

12. The Internet business model is a paradox. On the one hand, the cost of starting up or offering customer support is considerably

lower than in the physical marketplace. But on the other, considerable investment is needed in technology and marketing to retain and attract new customers.

13. Commitment and support from the management is a precondition of success. It is not enough for the IT or information department to be enthusiastic while the others are in ‘agreement’ or ‘informed’. There must be a genuine, businesslike driving force from within the management.
14. On the Net, the customer is king. Setting up a Web site is the simplest component. What many people underestimate is the need for support, customer care and logistics. Thus it is work behind the scenes that requires the greatest effort and commitment. And it is this that characterises the most successful Net companies.
15. There are no boundaries on the Net. One consequence is that sales districts, which are common in the physical market, are irrelevant. In future, no one can claim, “This is my district.”
16. Business-to-business commerce will dominate the electronic marketplace for the foreseeable future. There are several reasons why and they simply reflect conditions in the physical world in which corporate trading far exceeds private consumption. Electronic commerce is also easier to introduce as companies usually have established and continuing relations with their customers and suppliers. On the other hand, private persons usually buy one thing at a time and not particularly regularly. It means the profits are easier to see in trade between companies.

    A further reason why it may take longer for the consumer market to develop is the fact that many companies are afraid of upsetting their present distributors and retailers. And so many of them hesitate to go all out.
17. Those who aren’t on the Net, don’t exist. In the year 2001 a presence on the Net will be as much taken for granted as being in the Yellow Pages. Customers and suppliers will assume that they can obtain at least basic information about the company and its products or services.

    In many cases it will also be a necessity for even being considered as a supplier, as the electronic market has such obvious economic and time-saving advantages. A presence will then have become a pre-condition for doing business. Anyone who desists risks losing out.

18. A global recession could slow down developments if companies cut back on their investments, but hardly put a stop to them. The effect could just as well be the opposite as when times are hard companies usually take the opportunity to invest in rationalisation. The Internet can produce considerable savings and greater efficiency.

19. Time is a critical factor in the electronic market. The Internet forces the pace. Companies have less room for manouevre. Concepts such as 'soon', 'later', 'tomorrow', 'in a week's time', do not exist. Customers expect an immediate response. The reason why many companies fail is that they have not realised they are expected to communicate with customers in real time.

20. The electronic marketplace makes it easier to compare. This will put greater pressure on prices and margins, particularly in the business-to-business sector. Big buyers can easily play one supplier off against another. The process will be speeded up by the EMU, as prices in different countries will be directly comparable. This will force them down and level them out. With Sweden remaining outside, Swedish companies may not be subjected to the same pressure in the short term. But the result can also be that they miss out on business abroad that they would otherwise have had a chance of getting.

21. The Internet favours small-scale operations and specialisation. Big enterprises and vertical integration are a result of industrialism. But they are not necessarily an advantage in the electronic market. On the contrary, they can limit the company's flexibility and room for manouevre.

    The trend of recent years towards outsourcing part of the business will therefore increase rapidly. Outsourcing existed before, but the Internet has speeded it up. The new communications technology enables companies to hive off parts of their output chain without losing control over the product.

    It follows that the greatest growth in future will be in smaller businesses, while the big ones will decline in importance.

Webb guide

(Note that names beginning with the Swedish letter 'Ö' come at the end of the alphabet.)

A

Adlibris	www.adlibris.se
Akademibokhandeln	www.akademibokhandeln.se
Association for Share Promotion	www.aktieframjandet.se
Aktiespar Fondkommisson	www.aktiespar.com
Alfred Berg	www.alfredberg.se
Amazon.com	www.amazon.com
Areco Snowsystem	home1.swipnet.se/~w-16979/
AU-System	www.ausys.se
auto-by-tel.com	www.autobytel.com
AutoVantage	www.autvantage.com
AutoWeb	www.autoweb.com
Avanza Fondkommission	www.avanza.com
Axis Communications	www.axis.com

B

Barnes & Noble	www.barnesandnoble.com
Bengt Asklöf & Co	www.asklof.se/biabedds.html
Bilia	www.bilia.com
Bokhandeln.com	www.bokhandeln.com
Bokia	www.bokia.se
Boktjänst	www.boktjanst.se
Bokus.com	www.bokus.com
Borders	www.borders.com
Busiga Barn	www.busigabarn.se
Business Week	www.businessweek.com

C

Carpoint	www.carpoint.com
Chrylser	www.chrysler.com
Cisco	www.cisco.com
Citibank	www.citibank.com
CNET	www.news.com

CommerceNet	www.commerce.net
CyberGene	www.cybergene.se
D	
Dagens Nyheter	www.dn.se
Dell	www.dell.se
DN Motor	www.dn.se/motor
E	
The Economist	www.economist.com
Electrolux	www.electrolux.se
Elfa	www.elfa.se
Ericsson	www.ericsson.se
Ernst & Young	www.ey.com
E*trade	www.etrade.com
Euroflorist	www.euroflorist.se
F	
Financial Times	www.ft.com
Forbes	www.forbes.con
Forrester Research	www.forrester.com
Fritzes	www.fritzes.se
Föreningssparbanken	www.foreningssparbanken.se
G	
Gartner Group	www.gartner.com
General Electric	www.ge.com
H	
Habia Cable	www.habia.se
Hagströmer & Qviberg	www.hq.se
Handelsbanken	www.handelsbanken
Harvard Business Review	www.hbsp.harvard.edu/products/hbr/index.html
Hedengrens	www.hedengrens.se
Hewlett-Packard	www.hp.com
I	
IBM	www.ibm.com
ICA	www.ica.se
Ikanobanken	www.ikanobanken.se

Intel	www.intel.com
Interflora	www.interflora.se
Internet Bookshop	www.bookshop.co.uk
J	
J.D Powers & Associates	www.jdpower.com
JP Bank	www.jpbank.se
K	
KF	www.kf.se
Kindwalls	www.kindwalls.se
L	
Länsförsäkringar	www.lansforsakringar.se
M	
Matteus Fondkommission	www.matteus.se
Merrill Lynch	www.ml.com
Merita-Nordbanken	www.nordbanken.se
Microsoft	www.microsoft.com
Morgan Stanley	www.ms.com
Motorbranschens Riksförbund	www.mrf.se
Motorbörsen	www.motorborsen.se
N	
Nasdaq	www.nasdaq.com
National Automobile Dealers Association	www.nada.org
Netch Technologies	www.netch.se
NK-Hallen	www.nk.se/butik.html
Nordiska Fondkommission	www.nordiska.se/www.aktiedirekt.com
NordNet Securities	www.nordnet.ohman.se
O	
OECD	www.oecd.org
One-to-one-marketing	www.marketing1to1.com
P	
Partnertech	www.partnertech.se
Passagen	www.passagen.se
PC Flowers	www.pcflowers.se
Price Waterhouse	www.pw.com

Posten Logistik OLC	www.posten.se
Postgirot	www.postgirot.se
R	
Reflex Instrument	www.reflex.se
S	
Science Fiction-bokhandeln	www.sfbok.se
Saab-Ana	www.stockholm.ana.se
SalusAnsvar Bank	www.salusansvar.se
ScanCord	www.scancord.se
Scania	www.scania.se
Charles Schwab	www.schwab.com
SEB	www.sebank.se
SeniorNet Sweden	www.seniornet.se
Skandiabanken	www.skandiabanken.se
Sonesta	www.sonesta.se
Sparbanken Finn	www.spbfinn.se
Stadshypotek Bank	www.stadshypotek.se
Svenska Bilhandlare på Internet	www.trafikmarknaden.se
Svensk Bilweb	www.bilweb.se
Svensk Bokhandel	www.svb.se
T	
Telia Electronic Commerce	www.telia.se
Torget	www.torget.se
U	
Unleashing the Killer App	www.killer-apps.com
UPS	www.ups.com
USA Today	www.usatoday.com
V, W	
Veckans Affärer	www.va.se
Volkswagen	www.volkswagen.se
Volvo	www.volvo.se
Wall Street Journal	www.wsj.com
Webonomics	www.webonomics.com
Wells Fargo Bank	www.wellsfargo.com
Wettergrens	www.wettergrens.se

World Trade Organisation,	
WTO	www.wto.org
X	
Xtrade Solutions	
Fondkommission	www.teletrade.nu
Y	
Yahoo	www.yahoo.com
Ö	
Öhman's Fondkommission	www.ohman.se
Öhrlings Coopers&Lybrand	www2.se.coopers.com
Östgöta Enskilda Bank	www.oeb.se

Bibliography

Barrett, Niel: The State of the Cybernation; Cultural, Political and Economic Implications of the Internet (Kogan Page, London 1996)

Barnatt, Christopher: Cyber Business; Mindsets for a Wired Age (John Wiley & Sons , Chichester 1995)

Boken ITiden – report of the official enquiry into books and cultural periodicals (SoU 1997:141)

Cairncross, Frances: The Death of Distance; How the Communications Revolution Will Change Our Lives (Harvard Business School Press, Boston 1997)

Choi, SoonYoung; Stahl, Dale O; Whinston, Andrew B: The Economics of Electronic Commerce (McMillan Technical Publishing, Indianapolis, 1997)

Collin, Simon: Doing Business on the Internet (Kogan Page, London 1997)

Cronin, Mary J: Global Advantage on the Internet; From Corporate Connectivety to International Competitiveness (Van Nostrand Reinhold, New York 1996)

Cronin, Mary J: Doing Business on the Internet; How the Electronic Highway is Transforming American Companies (Van Nostrand Reinhold, New York 1995)

Cronin, Mary J ed: The Internet Strategy Handbook; Lessons from the New Frontier of Business (Harvard Business School Press, Boston)

Davis, Stan; Meyer, Christopher: Blur – the speed of change in the connected economy (Capstone, Oxford 1998)

Donovan, John J: The Second Industrial Revolution; Reinventing Your Business on the Web (Prentice Hall, New Jersey, USA 1997)

Downes, Larry; Mui, Chunka: Unleashing the Killer App – Digital strategies for market dominance (Harvard Business School Press, Boston 1998)

Ernst & Young: Internet Shopping – a special report, Feb 1998 *www.ey.com*

Hagel, John, Armstrong, Arthur G: NetGain; expanding markets through virtual communities (Harvard Business School Press, Boston 1997)

Hammond, Ray: Digital Business; Surviving and thriving in an on-line world (Hodder and Stoughton, London 1996)

Marlow, Eugene: Web Visions; An Inside Look at Successful Business Strategies on the Internet (Van Nostrand Reinhold, New York 1997)

Martin, Chuck: The Digital Estate; Strategies for Competing, Surviving and Thriving in an Internetworked World (McGraw-Hill, New York 1996)

Martin, James: Cybercorp, The New Business Revolution (Amacon, New York 1996)

Morgan-Stanley: Internet Retail Report (New York 1997, *www.ms.com*)

Morrison, Ian: The Second Curve; How to Command New Technolgies, New Consumers and New Markets (Ballante Books, New York 1997)

Mougayar, Walid: Opening Digital Markets; Advanced Strategies for Internet-Driven Commerce (CyberManagement Publications, Toronto 1997)

Kalakota, Ravi, Whinston, Andrew B: Frontiers of Electronic Commerce (Addison-Wessley, USA 1996)

Koelsch, Frank: The Infomedia Revolution; How It Is Changing Our World and Your Life (MCGraw-Hill Ryerson, Toronto 1995)

Lewis, T.G: The Friction Free Economy; Marketing Strategies for a Wired World (Harper Business, New York 1997)

Leebart, Derek, ed: **The Future of the Electronic Marketplace** (The MIT Press 1998)

Lynch, Daniel C, Lundquisy, Leslie: Digital Money; TheNew Era on Internet Commerce (John Wiley & Sons, New York 1996)

OECD: **The Economic and Social Impacts of Electronic Commerce** (*www.oecd.org* 1998)

OECD: Electronic Commerce – Opportunities and Challenges for Government (Paris 1997)

OECD: Commitee for Information, Computer and Communication Policy: Measuring Electronic Commerce (OCDE(GD(97)185, (*www.oecd.org* 1997)

OECD: Electronic Commerce: Prices and Consumers Issues for three products: Books, Compact Discs and Software (DSTI/ICCP/IE(98)4/Final, *www.oecd.org*)

Schwarz, Evan: Webonomics; Nine essential principles for growing your business on the World Wide Web (Broadway Books, New York 1997) *www.webonomics.com*

Tapscott, Don: The Digital Economy;Promise and Perils in the Age of Networked Intelligence (McGraw-Hill, New York 1996)

Tapscott, Don; Lowy, Alex; Ticoll, David: Blueprint to the Digital Economy (McGraw-Hill, New York 1998)

Ware, James; Gebauer, Judith; Hartman, Amir; Roldan, Malu: The Search For Digital Excellence (CommerceNet Press/McGraw-Hill, New York 1998)

World Trade Organisation: Electronic commerce and the role of the WTO, A special study (Geneva 1998) *www.wto.org*