IN BRIEF

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Alexandre Laurin

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E-Commerce : Towards the Business Organization of the Future

Many people claim that electronic commerce, in which commercial information transactions are conducted by means of sophisticated electronic networks (e.g. the Internet), will completely change the Canadian economic landscape. There are already many virtual sellers on the Internet, offering an impressive range of products. These new markets are providing more benefits to both consumers and retailers because they contain more information. As a result, consumers will be able to receive better value for their money, and retailers will be able to increase their potential market share. Nevertheless, there appears to be a major obstacle to the development of retail e-commerce: buyers cannot take immediate possession of the tangible goods they purchase.

Internationally, Canada already ranks among the leaders in electronic commerce. According to the Boston Consulting Group (BCG), Canada has the highest share of global e-commerce revenues after the U.S., with an Internet economy representing $28 billion in revenues and 95,000 jobs. Besides, the federal government has recognized the importance of e-commerce, and the obstacles that must be overcome. Bill C-6 (Personal Information Protection and Electronic Documents Act) plays an important role in the Canadian strategy for e-commerce, which consists of creating in cyberspace a legal environment capable of governing the increasing number of electronic transactions. Both consumers and businesses have to be confident that their interests, as well as their personal information, will be efficiently protected when they exchange contractual information over the Internet.

At the moment, e-commerce consists mainly of transactions between businesses. In Canada, these transactions accounted for 86% of total online spending in 1998; in the United States, the percentage is approximately the same. Wholesale trade does not face the same distribution problems as retail trade; rather, in this area, e-commerce increases the efficiency of the traditional distribution networks. In addition, businesses are able to make significant savings on communications costs and from coordinating their activities.

Although financial resources are increasingly concentrated in their hands (we are seeing a general wave of mergers and acquisitions), the influence that major companies can exercise over the real economy has lessened considerably in recent years. The new giants often opt for a more decentralized form of management that enables them to merge their core skill areas while subcontracting peripheral activities. Furthermore, the new companies being created every day on the Internet are generally growing through partnerships made up of a number of firms, some of which are very small. Each of these companies performs very specialized tasks in its own area of expertise. Through the production network thus created, new businesses are able to compete with larger ones (see the *Bluefly.com* example at the end of this document[(1)]).

Today, companies are facing increasingly fierce competition for three main reasons. First, the production capacity of firms now depends much more on the technology used than on the amount of capital utilized. As is well-known, it is relatively easy to plagiarize a new form of technology once it has been developed. A company will find it hard to prevent competitors from using its technology (at least in part or for a certain time), whereas capital has one exclusive user. Second, globalization places firms in competition with new foreign competitors. Third, new electronic markets are more transparent and reduce entry costs considerably.

To cope with this increased competition, companies need to keep their inventories to a minimum, become closer to consumers, and increase, or at least maintain, their sales levels. E-commerce enables companies to achieve these objectives more readily because it facilitates the decentralization of activities in the production chain. Without this decentralization, managers at the top of the firm have to deal with such an enormous amount of information and so many internal transactions that it is difficult for them to identify the problems and decide how to solve them. The strength of a chain does not depend on its total weight, but on the strength of its weakest link.

Many experts predict that in future the dominant form of business organization will consist of vast networks of smaller companies profiting from lower communication costs. This structure will enable companies to be more competitive in a highly competitive environment, with a production chain that is both stronger and more flexible. Thus, in an environment dominated by external transactions, e-business among companies, although much less visible than retail e-business, will in all likelihood play a predominant role in the Canadian economy.

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(1) **Bluefly: a virtual business**

Bluefly.com is a virtual store that sells major brand clothing on the Internet at discount prices. It was started in New York by a small-business man, Ken Sneiff. The Internet site, designed by a specialist, Kaufman Patricotes Entreprises of New York, is located and maintained in Houston by the Digex Corporation. Goods are ordered by Bluefly and stored and managed in Massachusetts by On-Demand Solutions (O-DS), a logistic operations company for virtual stores. Orders are delivered to buyers by Georgia-based UPS (United Parcel Service), and customer service is handled by a call centre in Maine that specializes in consumer relations.

> The division of tasks among distinct companies in a network not only reduces geographical constraints by allowing geographically dispersed companies to work together, but also forces major companies to compete with newcomers that are still very small. With nine full-time employees, *Bluefly* was able to compete with much bigger stores. What matters in reality is not the size of *Bluefly*, but the network system it has established with its partners, who, rather than focusing on one particular client, can share with each other the experience they have acquired in other markets. (Xavier Dalloz and André-Yves Portnoff, “Les entreprises virtuelles existent déjà et prospèrent” [Virtual corporations already exist and are thriving] *Futuribles*, June 1999, pp. 23-24)

This example shows how partnerships, external transactions and information exchange add value to each of the members of a production network.