

### "Future of Web Success Relies on Converging Micro-Payment Model with Privacy Technology"

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"Over the past few months analysts and commentators on the electronic commerce business have offered positive-- if not glowing-- prognostications about the growth of the Internet and of online commerce. In the opinion of all concerned, the trend looks positive. In order for the predictions to occur in reality two elements will have to converge. The first is the widespread use of privacy technology; the second, the adoption by creative marketers of the micro-payment model.

The issue of privacy is rapidly moving to the forefront of electronic commerce. Last week TIME Magazine (1) examined the need for privacy in cyberspace, one sign that discussions about privacy is no longer confined to the conversations of the digerati, but has become of such widespread importance to merit a featured spread in one of the Nations highest circulation weeklies.

The lack of perceived privacy in electronic transactions is a barrier to the growth of on-line commerce. According to a recent study, "privacy of personal information on the Internet is a consistent, significant concern for consumers . . . . As much as \$6 billion in additional electronic commerce could be gained by the year 2000 if consumers' privacy issues were addressed."(2) In 1998 the European Union will mandate incorporation of privacy-protecting technology in all electronic transactions occurring within its boundaries. According to experts such a mandate "could force many U.S.-based multinational companies to change their data-collecting and data-handling practices" in order to incorporate technologies and policies which would meet the provisions of the standard.(3)

In fact, privacy technology exists today which can be incorporated into many payment schemes without adding cost to the merchant or the consumer. As the public becomes aware of the privacy technology available, it will demand its use. If industry doesn't move quickly and integrate privacy solutions itself, regulators-- the EU being just one of many-- will mandate the solutions. Either way, once this hurdle is crossed, and it will be in the near future, one might ask what type of electronic commerce will show the most significant growth.

Growth has already begun to occur online in businesses selling traditional merchandise. Amazon.com, the electronic retailer, is an example of success in merchandising a traditional retail product: books. Virtual Vinyards is another example of successful on-line marketing of traditional merchandise.

Webzines, on the other hand, have not done so well. Even the most highly trafficked among them are losing faith in subscriptions as a sustaining, profit-making model, an indication of the difficulty in marketing timed purchases, such as subscriptions, via the Internet. However, the micropayment model, which allows a consumer to purchase an article rather than a yearly subscription, may prove a better strategy for this industry. Micropayments are small payments (usually less than one dollar) for information, services, or products which are sold traditionally in larger quantities or as part of another product. A pilot for such a business model in the music industry bears close attention. Recently Capitol Records announced a new distribution concept: Capitol will distribute new releases electronically, one month before making these releases available to retailers.(4)

The final tally of the Internet as a successful medium for new business models has yet to be counted. My prediction is that the real inroads in electronic commerce will be built by innovators like Capitol, whose easy-to-execute trial uses the strength of the medium to market and distribute in a manner not otherwise possible. It is critical to note that in Capitol's model the linchpin for the sale is the ability of the consumer to execute a micropayment for exactly that product which he or she wants to buy and to eliminate any contextual products not desired.

The success of any channel of distribution rests on its true value to the customer. The same will be true of e-commerce. The marketplace of digital merchants will be built by entrepreneurs who see the opportunity to sell goods which today are simply unavailable. Unique new markets and new market conditions will be accepted in cyberspace when merchants stimulate electronic commerce not just to their advantage, but also to the advantage of the consumer of goods and services."

1. TIME Magazine, Invasion of Privacy, Joshua Quittner, August 25, 1997.

2. InternetWeek, Privacy Issues Need Attention, Loud And Clear, Salvatore Salamone, September 6, 1997.

3. The Boston Consulting Group, eTrust Iprivacy Study, March 12, 1997.

4. Reuter Information Service, Capitol to sell new Duran Duran song online, September 6, 1997.