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Pew Internet Project/ISPs Release Holiday Ecommerce Data

By Charles King

The Pew Internet and American Life Project released a study concerning online consumer behavior during the 2001 holiday season. Based on the responses of 2,364 Internet users, the study estimated that the number of consumers who purchased gifts online rose from 20 million in 2000 to nearly 29 million in 2001. Additionally, the average amount consumers spent online rose from \$330 in 2000 to \$392 in 2001. The survey contained a number of notable findings, including women online shoppers outnumbering men by 58% to 42%, and that shoppers believed they saved both time and money by shopping online. While significantly more Americans (64%) used the Internet to socialize and seek information over the holidays than they did to shop (48%), the Pew Project estimated that the total population of online shoppers grew by approximately 11 million during 2001. In unrelated announcements, AOL reported that its members spent more than \$33 billion online in 2001, a third of it in Q4. Additionally, MSN announced holiday sales of \$5.6 billion at the portal site, and Yahoo reported an increase of 86% in 2001 holiday sales over 2000.

These announcements are likely to stand as great good news by true believers in the ecommerce community, and we believe there is some reason to smile. Setting aside concerns we have about the numbers offered by ISPs (such as how AOL can reliably track online purchases by its members), the near 50% increase in online shoppers and 20% boost in purchases per buyer estimated by the Pew Project suggest that consumer migration toward the Internet in America is continuing, even in a year that saw the country's economy spiraling into recession. Additionally, the Internet's usefulness as a communication medium has continued to grow and penetrate further in to daily life.

Good enough. However, we do not believe it is time open the bottle of self-congratulatory bubbly without placing these statistics in their greater context. The \$33 billion in ecommerce sales that AOL is crowing so loudly about may seem like a lot of money to you and us (and might even inspire a whistle of appreciation from Steve Case), but it works out to about one third of one percent of the \$10 trillion U.S. gross domestic product. In other words, online sales are continuing to perk upward even in a down market, but their impact on the U.S. economy is negligible, at best. To our way of thinking, the Internet continues to offer

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individuals and businesses an enormous number of opportunities, but it is wise to remember that its overall adoption and impact are still in the earliest stages.

Going Postal

By Jim Balderston

The General Accounting Office released a report this week outlining the United States Postal Service's (USPS) efforts to implement an ecommerce strategy. The report is highly critical of the USPS and senior management noting that the strategy to provide ecommerce services and capture ecommerce revenues has been "fragmented" and this lack of coordination within USPS management has left the USPS goal of \$104 million in revenue from electronic services at about a quarter of that amount. USPS offers electronic bill payments and PosteCS, a secure electronic document delivery service. The USPS PosteCS allows for non-repudiation or tampering of documents, along with offering a time stamp.

The USPS faces many of the same quandaries that private sector companies have wrestled with – and in many cases continue to wrestle with – concerning the impacts of Internet-related technologies and their core businesses. Simply stated, how does an enterprise, private or public, migrate existing services – or replace them outright – with electronic versions that diminish the franchise of the existing enterprise? The USPS needs, in our mind, to re-think what kind of enterprise it is. By failing to create a unified, consistent ecommerce strategy, it seems apparent that the USPS still sees itself primarily as a deliverer of physical objects. We would argue that USPS must see itself instead as a communications enterprise; one that has sizable assets and brand power in that market space. We believe there is a market for just such an enterprise that can offer unassailable guarantees for the delivery of critical and sensitive electronic information, an enterprise that has the full faith and credit of the United States government backing its efforts, and an enterprise that has the power to swiftly and effectively prosecute those that would tamper with the electronic documents sent through its services. In this respect, the USPS is unrivaled in both the public and private sector. It has both brand and capabilities to offer an unrivaled set of ecommerce products because they are the only enterprise in this country – and most others, for that matter – that have the full set of features listed above.

While we believe the root of the problems outlined in the GAO report are a product of too many senior USPS managers clinging to a vision of the USPS as developed in the 19th century, there are other issues at play as well. Unlike most companies, the Postal Service managers do not operate at the pleasure of their stockholders. As part of the organizational changes that made the USPS a private agency rather than an office of the US government, the USPS is required to gain permission from a governing board for most new business activities that it pursues. At hearing of this board, competitors can and do present their opposition to any changes that the USPS may desire. (Read: they have the right to try and stop competition before it starts.) In addition, while the USPS is not a government agency *per se*, its leadership is beholden to the Congress of the US, and members of Congress tend to be very respectful of companies that employ both clout in the beltway and a large number of individuals in their districts. There is sometimes more politics than business at play here. All of these issues notwithstanding, when USPS management comprehends the full possibilities of the postal service as a communications company, and finds a way to effectively deal with the political issues, we suspect future GAO assessments may have a very different spin.

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Searching for the Ultimate Consumer Internet Experience: The Future Power Internet Computer

By Clay Ryder

OEone Corp and Future Power, Inc. on Wednesday announced the Future Power AIO 17" Internet Computer, an all-in-one "Internet Entertainment Computer" that is targeted at consumers who are seeking an uncomplicated yet highly functional Internet entertainment device. This system is powered by OEone's HomeBase 1.0 Software, which is based on Open Source software and integrates Linux, an XML based Webtop, a Mozilla browser-based desktop, and a variety of components including productivity, entertainment, communications, personal portal applications, backup services, free software upgrades for one year and 100MB of server-side storage. The computer's standard configuration features a Pentium III 800MHz CPU, 128MB RAM, 20 GB hard drive, CD-ROM, USB ports, cable-ready TV tuner, 10/100-Ethernet, and a 56kbps modem. The Future Power AIO 17" Internet Computer is now available and is priced at \$799 for delivery to the US, and \$1199 for delivery to Canada.

Throughout the tail end of the 20th century, much ink was spilled over the notion that personal computers were too expensive, too difficult to use and manage, and too complicated for most people. Past market responses to address this perception have netted the Network Computer, the Net PC, email terminals, thin clients and Windows-based terminals, amongst many others. While some of these solutions carved small niches in the market, for the most part alternatives to the Intel-based PC have not taken the world by storm. Yet with all the advances in PC technology, the reality is that the PC remains a general-purpose solution with a one-size-stretches-to-fit-all approach. As such, the technology continues to hold expectations of users that far exceed the capability of many who are not members of the Digital Literati.

There is no doubt that PCs have a long way to go before they achieve the status of true consumer electronic products akin to the VCR, CD player or refrigerator. However, the sealed case and fully integrated nature of the Future Power AIO addresses many of the complexities of standard PCs but does not equate with a stripped down device. However this simplicity may ultimately prove a notable shortcoming. Since this is a non-Windows or -Mac OS platform, the user is effectively locked into whatever applications the company provides. Even though these solutions are based on Open Source software, the effect on the user is still one of proprietary lock-in, and owners can forget about loading Quicken, Word, or any one of hundreds of popular PC applications. But to be fair, the Future Power AIO is not pretending to be a PC but rather a plug-and-play entertainment device that accesses the Internet. Despite this, we question the viability of this product given its price tag. A similarly equipped Windows-based PC can be had for about \$500 and while fraught with all the complexity of a PC, it also offers the flexibility and extensibility of a PC. In a world of \$50 - \$350 consumer electronics, we believe the Future Power AIO is mis-priced to strike at the heart of the potential non-technical computer user market. But if the company were to adjust the price point, it may not be able to profitably deliver the device. So we find ourselves back to a very familiar situation where PC usability incrementally improves, price points continue to plummet, and the sheer volume of PC devices affords an economy of scale that is hard if not impossible to beat. While this scenario may be far from perfect, perhaps it is "good enough" for most. Good Luck Internet Computer, you are going to need it.

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DSL Subscriptions: The Chicken or the Egg?

By Jim Balderston

Bell South announced this week that it acquired 405,500 new DSL customers in 2001, and now offers DSL services in 70% of the sixty-three markets it covers. The company claimed these subscriber numbers represented a 188% increase over the previous year, and it expects to double its subscriber numbers in 2002 to over 1.1 million DSL customers. Bell South attributed its success to what it calls remote terminals, small central offices that allow DSL services to extend further into the community. Bell South claims 39% of their DSL subscribers are accessing the service through the remote terminals. At the same time, other Baby Bells appear to be slowing or abandoning aggressive DSL deployments.

While the vast majority of Internet users still crank up dial-up modems to access the Internet, broadband continues to make inroads in both the DSL and cable flavors. As we move into the future, we see the need for the persistent, high-speed connections offered by broadband to be an ever-increasing necessity, especially for the consumer, who desires a hands-off, do-it-for-me approach to maintaining and updating critical applications on their computer. We already see automated updates for a host of applications, notably security products like anti-virus but also many other applications that are now being routinely updated, patched or enhanced in some way over the Internet. Windows XP is also looking much more like a Web-based service as opposed to a resident operating system, with regular updates and security patches being automatically distributed over the Internet. Dial-up users face the prospect of constantly beginning sessions with repeated pop-up windows requesting (or urging) them to download this or that component. In essence, the intermittent dial-up connection is finding itself less and less applicable to the evolving and emerging computing environment that we call "Service Computing." While most of the most significant advances in the Service Computing environment are happening inside the enterprise firewall, that by no means limits its deployment to strictly enterprise desktops. Instead, we see strong parallels between the consumer and the individual user within the enterprise. Both need to get things done; neither wishes to manage the access device with which they accomplish these tasks.

In one sense, the increased availability of broadband allows for greater adoption of the variety of Web-based services that are becoming a routine part of applications installed on hard drives. On the other hand, these applications – many routine and necessary for the safe and efficient performance of routine computing tasks – are beginning to exert a pull-through effect on demand for high-speed connectivity in the home. With the growing number of consumer applications being delivered and updated over the Internet, we see a constant demand for high-speed access holding firm. It simply will become too painful to manage one's desktop with intermittent connections. For these reasons, we see any abandonment of DSL offerings from major Baby Bells as being a strategic misstep. Persistent, high-speed connectivity is an essential part of the Service Computing model that is now taking form in both the enterprise and consumer markets. Ceding the consumer theater of operations to cable operators or third party DSL operations is an opportunity missed that will not return for the Baby Bells.

AOL Slices Harvard "Spam"

By Charles King

Due to factors including fears of anthrax spores in the U.S. mail system, Harvard University utilized email to notify acceptances and rejections to almost all of the 6,000 students who applied to the school's early admission process. For reasons AOL could not fully explain, between 75 and 100 Harvard messages sent to AOL-based email addresses were identified by AOL servers as unwanted spam or junk email and

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bounced back to the university. Harvard officials said they would post a message on the university's Web site, telling students to make certain their ISPs do not block Harvard email. Additionally, the university will continue utilizing the postal system to notify applicants.

While we consider AOL's misidentification of a few Harvard emails to be a minor event, the story raises some issues we believe are worth further consideration. Despite the last grim months that witnessed a general collapse among dotcom high flyers, and the preposterous self-promotion of some online boosters, users continue to utilize the Internet largely as a means of flexible, mostly reliable communication. In fact, there are compelling indications that email is increasingly replacing some basic mail services offered by the USPS. Additionally, large ISPs such as AOL promote themselves as communications facilitators offering breathtaking numbers of services to a wide range of wired and wireless devices. What is missing from this message, we believe, is the notion of simple accountability. Any Internet user knows that the AOL spam glitch was not the first time that email has been misidentified and, in fact, was a relatively benign occurrence compared to the outright loss of messages that occasionally occurs.

But how does this minor brouhaha compare to life in the world of snail mail? First, consider what would have happened if the USPS misidentified First Class letters from Harvard as simple junk mail, then returned them to the university rather than delivering them to their stated destinations. We would be looking at front-page news stories to begin with, along with endless congressional hearings if some campaign donor's progeny had been directly affected. Additionally, if a problem seriously affects consumers, USPS postal inspectors have the power and means at hand to proactively investigate the situation and demand quick corrections. Are we being overly dramatic to make a point? Perhaps, but if AOL and other ISPs continue to paint themselves as providers of essential communication services to consumers and businesses, it may behoove us to consider where their responsibilities begin and end, and what rights and recourses users have when their service providers fail them.

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