FUTURE DIRECTION OF KOREA TELECOM'S

INTERNET BUSINESS

By

Han Soo-Youn

THESIS

Submitted to
School of Public Policy and Management, KDI
In partial fulfillment of the requirements
For the degree of

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ABSTRACT

Future Direction of Korea Telecom's Internet Business

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The increasing use of the Internet to conduct all types of business activity is breaking down the barriers among businesses. By sharing information through digitization and computer networks, firms can rely on external partners for noncritical functions and focus more resources on those functions that create the most value and provide the highest return on investment.

This paper examines why Internet business dominates today's economy by analyzing cases of successful Internet businesses, and suggests the future direction of Korea Telecom's Internet business. This paper suggests that Korea Telecom should establish a separate organization for Internet business, and spin off the Internet business in the long run. Korea Telecom should also focus on the business-to-business(B2B) market and form strategic alliances and partnerships

with its competitors and leading companies.

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Ⅰ. Introduction

1. 1. Background and Purpose of the Study

Worldwide electronic commerce has been growing rapidly during the past several years. Information technology (IT) has changed the overall industrial paradigm from product-focused marketing to customer-centric satisfaction. As the Internet evolves and businesses routinely use the common public network infrastructure to link with their business partners, companies will be able to reduce transaction costs to the point at which it becomes feasible, both strategically and financially, to outsource all non-critical business functions.

In the Internet era, the free flow of information puts the customer at the center of business priorities and strategies. The costs of communicating within the cross-functional team can be reduced and become insignificant. The increasing use of the Internet to conduct all types of business activity is breaking down the barriers among businesses.

Increasingly, companies must offer products and services that are specifically customized to meet the needs of consumers. Businesses in the digital age must employ product development processes that interact dynamically with consumers.

E-commerce can be divided into business-to-business(B2B) and

business-to-consumer(B2C). It is reported that business-to-business will account for over 90% of the total e-commerce market. However, it is said that many Internet pure players will fail or be acquired in the near future.

This paper examines why Internet business dominates today's economy by analyzing cases of successful Internet firms, and suggests the future direction of Korea Telecom's Internet business.

1. 2. Organization of the Thesis

This paper consists of five parts. Chapter 1 introduces the background and purpose of the study. Chapter 2 provides an overview of the worldwide Internet market and the Korean Internet market. Chapter 3 examines the differences between Internet business and traditional business, organization of Internet business, and marketing strategy. Chapter 4 analyzes the cases of Amazon, Hewlett-Packard, and Korea Telecom. Finally, Chapter 5 summarizes the key findings and suggests the future direction of Korea Telecom's Internet business.

Ⅱ. Market Overview of Internet Business

According to Forrester Research, global electronic commerce will be worth USD 6.9 trillion by 2004 and almost 89 percent of all online transactions will be made in only 12 countries. Forrester Research, however, predicts that South American e-commerce will be worth USD 82 billion by 2004 and the combined value of e-commerce revenues in Eastern Europe, Africa and the Middle East will be USD 68.6 billion. While e-commerce will continue to boom in the next decade, Africa, South America and parts of Asia will be largely left out of the trade revolution.

According to Computer Economics, only 6 percent of total e-commerce will be transacted in these regions in 2000 and this figure will only rise by 1 percent by 2003. Only 0.1 percent of business-to-consumer market will be slightly more open. The slow growth potential for e-commerce in the developing world is attributed to high access costs and a lack of infrastructure. Computer Economics anticipates that the total e-commerce market should grow from USD 2.9 trillion in 2000 to USD 9.5 trillion by 2003. This figure is much higher than that of Forrester's expectation.

According to annual predictions made by IDC, pure play dotcom companies will gradually disappear in 2000 and stock evaluations of Net companies will balance out. Internet companies will begin to experience profitability in the year 2000 and the proliferation of free Internet access, software and devices will continue. Virtual companies, or companies who do not have physical offices, will gradually disappear and give way to a new Internet economy characterized by a new set of companies using the Internet as a business channel.

Gartner Group predicts that up to 85 percent of Internet pure players in the Asia Pacific region will fail or be acquired by 2003. Despite this, Gartner says that e-commerce will thrive in the region over the next 4 years, growing to USD 1 trillion by 2004, up from USD 30 billion at the end of 2000. About 95 percent of all e-commerce will be business-to-business, with the remaining 5 percent comprised of business-to-consumer transactions. According to Gartner Group, the majority of online business failures will be due to lack of agility and an inability to develop new business models, find new partners and reengineer business processes. Table 2-1 shows revenues for the global e-commerce market.

[Table 2-1 Revenues of Worldwide E-Commerce]

	`96	`97	`98	`99	`00	`01	`02
Amount(USD bil)	2.9	21.8	73.9	180	377	717	1234
Annual Growth(%)		652%	239%	144%	109%	90%	72%

(Source : ActivMedia)

2. 1. The Worldwide Internet Market

Worldwide Internet Users

At the end of 1996, NUA Internet surveys showed that there were approximately 55 million people worldwide using the Internet. In 1997, Internet users were up to 98 million people, increasing by 56 percent compared to the previous year. Although the Asian economy had been suffering from the IMF crisis during 1998 and 1999, worldwide Internet users had been increasing by 150 million and 205 million respectively, increasing 65 percent and 73 percent annually. NUA Internet survey predicts that there will be 250 million users in 2000 and 350 million by 2005. Table 2-2 below shows detailed data.

[Table 2-2 Worldwide Internet Users]

Year	1995	1996	1997	1998	1999	2000	2005
Users(mil)	26	55	98	150	205	250	350
Annual Growth		47%	56%	65%	73%	82%	71%

(Source : NUA Internet Surveys)

The proliferation of Internet users is very different according to regions. NUA data shows that North America such as Canada and USA was the largest region in the world, with over 55 percent of the world total in September 1999. Europe was the second largest, with over 23 percent and Asia Pacific was the third, with approximately 17% of the total. These three areas, North America, Europe and Asia Pacific,

account for over 96 percent of the world total. However, in March 2000, the portion of North America fell below about 10%, while Europe and Asia Pacific increased by 27% and 23%, respectively. According to IDC research, more than half of Western Europeans will have access to the Internet by 2003. About 215 million people will be online in the region.

E-Commerce Market

IDC predicts that e-commerce in Europe will grow accordingly and revenues from e-commerce will total USD 118.6 billion by 2003, up from USD 9.85 billion in 1999. At least 3 percent of European Internet users already shop online regularly and 15 percent make at least 4 purchases per year. About 20 percent of shoppers should be regular online buyers by 2003 as consumers will have more trust in e-commerce merchants and online privacy and security.

Despite increasing Internet users, e-commerce sites are still unsatisfactory with shoppers. According to the Boston Consulting Group, at least 4 out of 5 online purchasers have experienced failed purchase and 28 percent of all online purchases fail. The most frequent problems were sites taking too long to load (48 percent) and sites being so badly designed that products could not be found (45 percent). Other stumbling blocks included technical problems and logistical and fulfillment

difficulties. Failed purchases deterred shoppers: 28 percent who were frustrated in a purchase from an e-commerce site said they would not shop online anymore, 23 percent would not buy from that particular site anymore and 6 percent would stop at the companies, brick-and-mortar stores, if they existed. The average online consumer conducts 10 transactions on the Internet in a year and spends USD 460 in that time. Consumers expect to wait no longer than 13.2 seconds for a home page to load, 5.8 minutes to find a product, 4.5 minutes to complete the order and 6.4 days to take delivery of the goods.

Business-to-Consumer(B2C)

According to a research by ActivMedia Research, Internet users spent an estimated total of USD 66 billion online during 1999. Another research by Jupiter Communications predicts that Internet-influenced retail spending will top USD 235 billion in 2000 and USD 831 billion in 2005. The Internet will influence 75 percent of all retail spending in five years, up from 43 percent in 1999. About USD 200 billion will be spent at retail Websites while consumers will search another USD 632 billion worth of purchases on the Internet and then buy them in a bricks and mortar store. Over 68 percent of online shoppers say they have searched products online and then purchased at a bricks and mortar store and a

further 47 percent say they have searched goods on the Internet and then purchased them over the telephone. Jupiter says that these results show the importance of integrating retail businesses across channels and fully incorporating Websites into their overall strategy.

In particular, Internet retail market is soaring in Asia Pacific. According to the Boston Consulting Group, online consumer markets in the Asia Pacific region are reaching a critical mass. Revenues for the sector grew by almost 200 percent to USD 2.8 billion in 1999 and should top USD 7 billion by the end of 2000. Despite the rapid growth, online transactions only account for 0.1 percent of the total retail market in comparison with the US figure of 1.2 percent. More than 10 million Internet users in the region have already bought products or services on the Internet and the number of online shoppers is expected to surge within two years. The researchers say there is still enormous potential for new e-commerce developments in the region although the markets for computer products, financial services and travel are already overcrowded. The top 25 companies in each market account for more than 60 percent of revenues.

There are also optimistic predictions for business-to-consumer market in Europe. According to Forrester Research, business-to-consumer market is set for almost 100 percent yearly growth between

1999 and 2005. Online retail sales will soar from USD 2.77 billion to USD 167.44 billion by 2005. This will represent 7 percent of total retail sales in Europe. The advent of the Euro currency in 2002 will also change the European retail sector, easing logistics for many pan-European retailers.

Business-to-Business(B2B)

Business-to-business e-commerce transactions will skyrocket to USD 7.29 trillion by 2004, up from USD 145 billion in 1999, according to Gartner Group.

North America dominated the market in 1999, accounting for 63 percent of all transactions. The increasing strength of other regional players means that this trend will not continue and North America will have only 39 percent of the market by 2004.

The business-to-business market in Europe will increase from USD 31.8 billion in 1999 to USD 2.34 trillion in 2004. Although much of the Asia Pacific region is catching up rapidly, it should be worth USD 992 billion in 2004, up from USD 9.2 billion in 1999.

South America will not be left behind in the business-to-business rush. Revenues from business-to-business e-commerce there should rise to USD 124 billion by 2004 from 1999 total of USD 1 billion.

According to Forrester Research, online buyers in North America will account for just over half the world total, or USD 3.5 trillion by 2000.

Asia Pacific will be the second largest market with the value of USD 1.6 trillion, of which USD 1.5 trillion will be business-to-business based.

E-commerce sales in Europe will increase by 140 percent annually until 2004, when revenues will amount to USD 1.5 trillion, or 6 percent of the total European economy. Business-to-business transactions will account for almost USD 1.4 trillion of total online revenues in Europe

2. 2. The Korean Internet Market

A new survey by the Korea Information Culture Center (KICC) found that 87 percent of Koreans have visited an online shopping mall at least once and of those, 51.2 percent have bought something online.

PCs and computer equipment were the most popular online purchases followed by books, music, video, CD and electrical appliances. 42 percent said they shopped online for convenience.

94 percent of online shoppers, however, said they did not trust online credit card transactions and they feared that personal details could be extracted, if they used their credit cards.

The size of the Korean Internet market has expanded rapidly, but it is still tiny and in the emerging stage. The Korean market is only about 0.1 percent of the U.S. Internet market based on comparison of Forrester Research and KT Research Center.

However, Internet users are increasing by almost a quarter of the Korean population, over 10 million users in January 2000 and the annual growth rate of hosts and domains has been growing by more than 100 percent and 200 percent, respectively, since 1994.

Korean Internet Users

According to The Korea Herald, two different recently released

surveys show that the number of Korean Internet users is over 10 million in January 2000. I-Click, an Internet tracking firm, says that 10.5 million users over 13 years have used the Internet while a government commissioned survey conducted by Research & Research puts the figure at 10 million users over the age of 7 at the end of 1999.

According to Samsung Economic Research Institute (SERI), there has been a ten-fold increase in the number of Koreans using the Internet since 1996. At the end of 1998, 3 million Koreans were online, at the end of July 1999 the number was over 5.7 million. Within about half year, it was increasing by over 1.5 million users. Table 2 – 4 below indicates the detailed figures.

[Table 2 - 3 Korean Internet Users]

	`94	`95	`96	`97	`98	Jul-99
Amount(thous)	138	366	731	1,634	3,103	5,712
Growth		165%	100%	124%	90%	84%

(Source : KRNIC)

Internet Shopping Malls

According to the research paper, " Suggestions and Strategies for the Expansion of Korean EC Markets: an Analysis of Factors Affecting Customer-Oriented EC Success," published by the National Computerization Agency, as of June 1999 there were 568 Internet shopping malls. There were 117 general shopping malls, about 20.6

percent of total, and 451 specialty shopping malls, about 79.4 percent. Subcategory was 92 online only sites and 25 both online and offline sites of those general shopping malls. Of specialty shopping malls, there were almost the same number as 224 online only sites and 227 both online and offline sites.

Korean E-Commerce Purchases

According to SERI, the surge in numbers is significantly boosting Internet based businesses in Korea and SERI expects Internet based businesses to generate USD 1.7 billion in 2005. There were 230 Korean cyber shopping malls which collectively generated USD 23.7 million in revenue in 1998. Yahoo! Korea reported in early 1999, that its average page views increased by 1 million per week. It expected to average 15 million page views per week by the end of June 1999.

Another survey firm, 1-Click said that Koreans were warming to e-commerce, and 3.3 percent of Koreans, or 920,000 people had bought online. Total online purchasing in the second half of 1999 amounted to USD 178 million and each shopper purchased 2.8 times on average.

According to the Research & Research report, two-thirds of Korean Internet users are male. More than 60 percent of users visit computer and Internet related sites, 51.2 percent visit entertainment sites and 38.1

percent regularly go to news sites. Almost 70 percent of Koreans say they use the Internet primarily for information, 14.5 percent use it for game and entertainment sites, 8.9 percent log on to chat online and 7.3 percent say e-mail is their main reason for going online. Just over 40 percent access the Internet at home, while 21.8 percent surf from their PCs on work.

According to KRNIC survey, online users are not satisfied with e-commerce purchasing. In general, male online users are more satisfied than female users, teenagers are relatively satisfied with price, and people in the 40s are satisfied with quality.

Ⅲ. Strategic Analysis of Internet Business

3. 1. Differences between Internet Business and Traditional Business

3. 1. 1. The Value of Time

Traditional industries have focused on supply-side analysis such as product, price, distribution and promotion. But the emerging digital economy will be faced with customer-side analysis emphasizing customer needs and preferences, information-based marketing, time value, and so forth.

Douglas F. Aldrich emphasized the difference of time value among the various economies. In the industrial economy, time savings in business operations was driven by the push for cost reduction and improved efficiency. Price and quality were drivers of customer segmentation, and time value was not considered an important factor in customer choice and behavior.

In the digital economy, a consumer is demanding not only that time savings be incorporated into products and services, but also that these products and services be delivered as quickly as possible. Time consciousness has had a ripple effect through the entire value chain. Time savings across a various kind of business operations is now

seen as a primary means to improve profits by "*creating value.*" [1]

All offerings will incorporate some level of digitization and time savings to remain competitive, and therefore time value will not be a key differentiator. Companies need to focus on the consumer segments that place a definitive value on time, and those segments that are willing to pay a price premium over other products to obtain additional time. [2]

He described the trade-off relationship between time and leisure in each economy. Figure 3.1 shows the distribution of time through the various economies.

[Figure 3 - 1] The Reduction of Consumer "Free" Time

(Source : Douglas F. Aldrich. Mastering the Digital Marketplace)

In the agricultural economy, work hours were long and hard, had little mechanical support, and left little time for discretionary purposes. Meanwhile the industrial economy became a standardization of work hours and shifts, as well as the formation of unions to protect the workers' interests. All of those led to a stabilization of work-

[1] Douglas F. Aldrich, Mastering the Digital Marketplace (1999)
[2] Ibid.

versus-leisure hours. [3]

In the digital economy people are essentially back to the long hours of the agricultural economy. They're also seeing the same blurring of lines between their discretionary time and the time required to complete chores – both personal and professional. On this point, the Robinson and Godbey study revealed an interesting fact: The number of discretionary time consumers had has gone up over the years. Yet, something about the nature and intensity of life in the digital age has created a perception of time famine. While this study seems to be in opposition to having less time, for the person doing the perceiving, perception is reality. This perception is also driven by the fact that discretionary time has become more fragmented throughout the workweek. [4]

Therefore, in Internet business, time-value-oriented products or services will flourish in the market. But companies that ignore the time-value proposition face commoditization of their products and services, and take a risk in extreme competitive disadvantage. [5]

3. 1. 2. Change of Consumer's Role

In traditional business, consumers had little direct power over what goods were available. Most of the information was in the hands of manufacturing companies and suppliers. There is an information asymmetry between consumers and suppliers. Even though suppliers

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[3] Ibid.
[4] Robinson,John and Geoffrey Godbey, Time for Life (1997)
[5] Douglas F. Aldrich, Mastering the Digital Marketplace (1999)

have tailored their offerings to finer and finer slices of the consumer base, consumers are ultimately forced to settle for the best approximation of what they want. Consumers are product takers no longer. They're "product makers". [6]

The consumer information can be used to guide the evolution of entire product lines and to spot new growth opportunities at their earliest stages. In such an environment, it becomes very difficult for a competitor, lacking the in-depth consumer information, to displace the existing provider. As it is only the early stages of the digital economy, first movers gain enormous advantages, so called, first mover's advantages.

The role of the consumer shifts from passive recipient to active designer. That shift is just the most recent stage in the long-term evaluation of the consumer's role in the economy.

Adrian J. Slywotzky, a vice president of Mercer Management Consulting in Lexington, Massachusetts, introduced the importance of consumer's role by using the word "*choiceboard*." Choiceboard means that thanks to the Internet, an alternative to the traditional unhappy model of supplier-customer interaction is becoming possible. In all sorts of markets, customers will be able to describe exactly what they want, and suppliers will be able to deliver the desired product or service

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[6] Ibid.

without compromise or delay. Choiceboards are interactive, on-line systems that allow individual customers to design their own products by choosing from a menu of attributes, components, prices, and delivery options. [7]

He foresaw three types of competitors vying for early choiceboard control in few years. First is the individual manufacturer or assembler. Second is a consortium of existing manufacturers. Third is the new intermediary. Because choiceboards are essentially design tools and conduits of information, they needn't be controlled by the companies that produce the products.

Choiceboards are essentially transaction devices; information is a by-product. In the near future, choiceboards will be primarily information-collection devices and customer relationship-builders. Companies will use their choiceboards to actively solicit from customers' satisfaction levels, their buying intentions, and their requirements and preferences.

Despite the importance of choiceboard, some companies are unwilling to accept the choiceboard. The first is simply their newness: many manufacturers can't imagine doing business through a choiceboard model. It would mean restructuring their entire manufacturing and sales

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[7] Adrian J. Slywotzky, "The Age of the Choiceboard." *Harvard Business Review* (January-February 2000): 40 – 41

systems. The second is the lack of highly responsive supply networks that can deliver components and services as needed. The third is the lack of a critical mass of customers able to use choiceboards. Digital readiness is the number of PCs times the degree of PC literacy times the breadth of broadband access. It is still low.

Adrian J. Slywotzky anticipates that choiceboards will be involved in 30% or more of total U.S. commercial activity as our economy moves from a supply-driven to a demand-driven system. [8]

Therefore, to be competitive, companies should offer products and services that are specifically customized to meet the needs of consumers. Businesses in the digital era should employ product development processes that interact dynamically with consumers. They perform a more constant monitoring of overall market trends. Product life cycle time gets dramatically reduced. Raw materials are procured rapidly and in a cost-effective manner. Distribution methods that suit the consumer's, not the company's, convenience are put into place. The free flow of information will put the consumer at the center of business priorities and strategies. [9]

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[8] Ibid.
[9] Douglas F. Aldrich, Mastering the Digital Marketplace (1999)

3. 1. 3. New Concept of the Intermediary

The New Distribution Concept

The Internet enables customers to bypass distributors and communicate with producers. Retailers are likely to lose much of their power. As in the glory days of brand management, manufacturers will be able to devote all of their marketing budgets to improving and promoting their products.

Peter Sealey mentioned each generation of electronic commerce. A landgrab was the first generation. Retail space on the Internet was claimed by whoever got there first with enough resources to create a credible business. It took speed, a willingness to experiment, and a lot of cyber-savvy. There were key players in the second generation of electronic commerce such as branded-goods suppliers, physical retailers, electronic retailers, and pure navigators. They will shift their attention from claiming territory to defending or capturing it. They will be forced to focus on competitive advantages and on strategies to achieve it. [10]

Douglas F. Aldrich introduced the term "pipeline velocity." Pipeline velocity is characterized by the following factors: near-zero lead time, actual demand response instead of forecasting, zero-tolerance delivery

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[10] Peter Sealey, "Getting Real about Virtual Commerce." *Harvard Business Review* (November-December 1999): 85 - 94

schedules, synchronization of flow with true customer demand, removal of lot sizing, and absolute local (even on-the-spot) control to ensure immediate response to change. These things occur throughout the entire supply chain. In addition to pipeline velocity, these companies are concentrating their efforts on quality, cash flow, and IT-enabled flow of information to all members of the value chain. [11]

The Evolution of Retail Markets

Clayton M. Christensen and Richard S. Tedlow, professors of business administration at Harvard Business School, described the evolution of the retailing market in detail. A disruptive technology enabled innovative companies to create new business models that alter the economics of their industry.

In retail market, the first disruption arrived in the form of department stores. The second was the mail-order catalog. The third was the rise of discount department stores. Internet retailing marked the fourth disruption. [12]

Traditional retailers have had to make a trade-off between the richness of information they could exchange with customers and the number of customers they could reach. Although local merchants could

[11] Douglas F. Aldrich, Mastering the Digital Marketplace (1999)
[12] Clayton M. Christensen and Richard S.Tedlow, "Patterns of Disruption in Retailing." *Harvard Business Review* (January-February 2000): 42 – 45

exchange rich information about products, the economics of providing such expertise meant that they could cater to only a narrow set of customers. To reach a mass market, department stores could not afford to employ expert staff to sell a broad range of complex products. They were forced to provide less rich information. The Internet seems capable of breaking this trade-off. It can enable retailers to communicate rich information about a broad set of complex products to a very large set of complex products to a very large set of customers.

While disruptions change the economics of an industry, they don't necessarily change companies' profitability. In retailing, profitability is largely determined by two factors: the margins stores can earn and the frequency with which they can turn their inventory over. The average successful department store, for example, earned gross margins of approximately 40% and turned its inventory over about three times per year. In other words, it made 40% three times, for a 120% annual return on the capital invested in inventory. Compare that with the business model of the average successful discount department store, which earned 23% gross margins and turned its inventory over five times annually. It achieved a similar return on inventory investment by changing the balance between margins and turnover rates. Internet retailers' profit margins haven't yet converged into a standard range. But if businesses

such as Amazon.com continue to turn inventory at present rates of 25 times annually, they could achieve traditional returns with margins of 5%. [13]

[13] Ibid.

3.2. Organization of Internet Business

Internet business requires an organization that can adapt much more quickly. The organization must leverage the entrepreneurial capabilities of its employees if it hopes to adequately respond to short-shelf-life opportunities. To do so, it must provide employees with sufficient incentives and flexibility. [1]

In Internet business, the traditional organizational structure must be changed to achieve the goal of an entrepreneur. Douglas F. Aldrich introduced the value-based organization that is appropriate in Internet business. A business that transforms itself around a network organizational structure requires fewer checks and balances because responsibility is not delegated. The responsibility is not delegated down through the ranks, but is assumed by a cross-functional subset of employees who team to attack the challenge, then disband when the challenge is overcome.

The costs of communicating within the cross-functional team can be reduced and become insignificant. As technology improves the organization's ability to communicate, the layers of management originally needed to perform these functions have evaporated. The

[1] Douglas F. Aldrich, Mastering the Digital Marketplace (1999)

network structure is the only form that attempts to take advantage of the skills of entrepreneurial employees who are individually committed to creating new value.

Thomas W. Malone and Kobert J. Laubacher argued in the "The Dawn of the E-Lance Economy" that the recent business organizations pursued the small organizational structure. Business organizations are mechanisms for coordination. They exist to guide the flow of work, materials, ideas, and money, and the form they take is strongly affected by the coordination technologies available. Despite all the recent of decentralized management, empowered employees, and horizontal processes, the large, industrial organization continues to dominate the economy today. It remains in the age of multinational megacompanies, and those companies appear to be rushing to meld into larger forms. [2]

According to Thomas W. Malone and Robert J. Laubacher, the research on disintegration and pursuit of the small entrepreneur suggests that when it is cheaper to conduct transactions internally, within the bounds of a corporation, organizations grow larger, but when it is cheaper to conduct them externally, with independent entities in the open market, organizations stay small or shrink.

They explained the comparison between the industrial era and the

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[2] Thomas W. Malone and Robert J. Laubacher, "The Dawn of the E-Lance Economy." *Harvard Business Review* (September-October 1998)

new economy, big organization and small organization. The coordination technologies of the industrial era made internal transactions not only possible but also advantageous. Companies were able to manage large organizations centrally, which provided them with economies of scale in manufacturing, marketing, distribution, and other activities. It made economic sense to directly control many different functions and businesses and to hire the legions of administrators and supervisor needed to manage them. Big was good.

But with the introduction of personal computers and broad electronic networks -the coordination technologies of the twenty-first century - the economic equation changes. Because information can be shared instantly and inexpensively among many people in many locations, the value of centralized decision making and expensive bureaucracies decreases. Individuals can manage themselves, coordinating their efforts through electronic links with other independent parties. Small becomes good.

The new coordination technologies enable us to return to the preindustrial organizational model of tiny, autonomous businesses conducting transactions with one another in a market. But there's one crucial difference: electronic networks enable these microbusinesses to tap into the global reservoirs of information, expertise, and financing that

used to be available only to large companies. The small companies enjoy many of the benefits of the big without sacrificing the leanness, flexibility, and creativity of the small.[3]

[3] Ibid.

3.3. Marketing Strategy of Internet Business

Intangibles and Cost Effectiveness

In the Internet era, it is essential to understand how these two economic elements, previously thought of separately as " products" and "services," come together to create a distinctly new type of offering. Almost anything that can be purchased contains both a tangible container element (typically a physical product) and an intangible content element (typically the accompanying information, knowledge, or service that adds additional value to the container). [1]

Technological improvements have resulted in making most containers capable of executing their core functionality more efficiently. However, content enhancement means extending the core functionality of the offering into other domains that were not traditionally a part of the product. [2]

Nicholas G. Carr would argue that one of the lion's share of the profits in e-commerce is the owners of specialized content sites. These content sites would draw people interested in the particular subjects they cover, using discussion boards or other interactive features to encourage return visits. As affiliates of big Internet firms, they would serve as

[1] Douglas F. Aldrich, Mastering the Digital Marketplace (1999)
[2] Ibid.

gateways to purchases, gaining a share of all sales. Some of these content sites would be large, but most of them would be small and intimate. When people first venture onto the Internet, they tend to head for the big-name sites – Amazon, Yahoo!, and the like – because those are the easiest to find. But as they become used to the Web and more familiar with searches and other navigation aids, they start to seek sites tailored to their particular interests – sites that might get only a few dozen visitors a day. For content sites, specialization is more important than scale. [3]

As Internet business has been developed, there was a belief that it would mean the death of the middleman. It was believed that manufacturers and suppliers were connected directly with consumers bypassing wholesalers and retailers. It meant a great era of disintermediation.

But Nicholas G. Carr, a senior editor at Harvard Business Review, argued the opposite phenomenon introducing the new concept – "hypermediation," The definition of hypermediation means that transaction over the Web, even very small ones, routinely involved all sorts of intermediaries, not just the familiar wholesalers and retailers, but content providers, affiliate sites, search engines, portals, Internet

[3] Nicholas G. Carr, "Hypermediation: Commerce as Clickstream." *Harvard Business Review* (January-February 2000): 46 – 47

service providers, software makers, and many other entities that haven't even been named yet. And it's these middleman that are positioned to capture most of the profits. [4]

Two characteristics of electronic commerce make hypermediation possible and even inevitable. First is the sheer volume of activity. People make billions of clicks on the Web every day, and because every click represents a personal choice, each also entails the delivery of value and thus an opportunity to make money. The second characteristic is efficiency. The incremental cost of an on-line transaction is basically zero. It doesn't cost anything to execute a line or two of code once the code's been written. The pennies taken in by many intermediaries are almost pure profit. If volume and efficiency make microtransactions attractive, they make microbusinesses attractive, too. [5]

[4] Ibid.
[5] Ibid.

Brand Management

Peter Sealey, an adjunct professor of marketing at the Haas School of Business at the University of California at Berkeley and a consultant in Silicon Valley, mentioned that the last major innovations in marketing had been the advent of brand management and the introduction of network television after World War Ⅱ.[6]

In Internet business, the effective marketing is the interactive marketing. Godin, the head of direct marketing at Yahoo!, dismisses traditional advertising practices as " interruption marketing." He concedes that permission marketers rely on interruptions to introduce themselves to a broad base of customers. But the introductory advertisements can be simple because they don't need to sell the product. All they need to do ask permission to say more. From that point on, all participation is voluntary.

Permission marketing can work in a number of media, but it is tailor-made for the Internet, where easy interactivity promises to facilitate marketing dialogues in many industries. Electronic communication is both cheap and highly targeted. It is fast and infinitely customizable.[7]

Where traditional marketing treats customers as an undifferentiated mass, the Internet allows a company to discover and exploit their

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[6] Peter Sealey, "How E-Commerce will Trump Brand Management." *Harvard Business Review* (July-August 1999): 171-176

[7] Seth Godin, Permission Marketing: Turning Strangers into Friends, and Friends into Customers (1999)

individual interests. Traditional marketing relies on disparate media for advertising, research, sales, promotional activities, coupon distribution, and customer support. The Internet, by contrast, permits companies to put these separate channels of customer communication into a single, focused, coherent response mechanism.

As Godin says, the Internet is "the greatest direct marketing medium of all time." [8]But his focus on direct marketing keeps permission marketing from realizing the full potential of the medium. The Internet does more than facilitate a marketer's communication with customers. It gives customers an unprecedented degree of control over the entire marketing process.

Under brand management, consumers are largely passive. They learn about most products through advertising, and those advertisements shape their experience with the products. Permission marketing gives consumers something to say, but the process is managed by the marketer. Godin's ideal situation is "intravenous" marketing, in which companies resupply their products after getting initial permission.

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[8] Ibid.

Ⅴ. Summary and Conclusion

This paper suggests that the increasing use of the Internet to conduct all types of business activities is breaking down the barriers among businesses. By sharing information through digitization and computer networks, firms can rely on external partners for non-critical functions and focus more resources on those functions that create the most valuable and provide the highest return on investment. Because Internet business requires little capital to support business and has lower general and administrative costs, it increases productivity, reengineers business processes, and basically achieves customer satisfaction in better ways.

Global e-commerce will be growing tremendously to about USD 7 trillion by 2004, but almost 89 percent of all online transactions will be made in only 12 countries. About 87 percent of Koreans visited an online shopping mall at least once and of those, 51.2 percent bought something online. The Korean Internet market has been soaring enormously, but it is still tiny and in the emerging stage.

KT should establish a separate organization for Internet business, and spin off the Internet business in the long run. KT should keep and extend the Internet infrastructure such as Internet backbone networks, Internet superhighway, content platform and

webcasting platform, security technology, and electronic payment system.

KT should form strategic alliances with its competitors and first movers in the market, make equity investment in venture businesses, and foster start-ups to expand Internet contents business and other new businesses.

[EXHIBIT 1 Income Statement of Korea Telecom]

(unit: USD million)

Remarks	1999		1998		Increase over 1998	
	Amount	Ratio over Revenue	Amount	Ratio over Revenue	Amount	Growth Rate (%)
Operating income (sales)	**8,495**	**100.0%**	**7,763**	**100.0%**	**732**	**9.4%**
Data	1,260	14.8%	1,011	13.0%	249	24.6%
Internet	110	1.3%	27	0.3%	83	307.4%
Mobile interconnection fees	2,246	26.4%	1,402	18.1%	844	60.2%
Local phone	2,810	33.1%	2,766	35.6%	44	1.6%
Long distance phone	1,091	12.8%	1,323	17.0%	-232	-17.5%
International business	500	5.9%	576	7.4%	-76	-13.2%
Public phone	300	3.5%	466	6.0%	-166	-35.6%
Wireless/satellite	67	0.8%	62	0.8%	5	8.1%
Others	111	1.3%	130	1.7%	-19	-14.6%
Operating expenses	**7,863**	**92.6%**	**7,201**	**92.8%**	**662**	**9.2%**
Labor cost	1,957	23.0%	1,644	21.2%	313	19.0%
Business expenses	5,906	69.5%	5,557	71.6%	349	6.3%
Operating income	**629**	**7.4%**	**563**	**7.3%**	**66**	**11.7%**

Non-operating income	320	3.8%	351	4.5%	-31	-8.8%
Non-operating cost	502	5.9%	538	6.9%	-36	-6.7%
Ordinary income	**447**	**5.3%**	**375**	**4.8%**	**72**	**19.2%**
Extraordinary income	95	1.1%	134	1.7%	-39	-29.1%
Extraordinary losses	138	1.6%	194	2.5%	-56	-28.9%
Ner income before taxes	**403**	**4.7%**	**315**	**4.1%**	**88**	**27.9%**
Income taxes	64	0.8%	87	1.1%	-23	-26.4%
Net income	**339**	**4.0%**	**229**	**2.9%**	**110**	**48.0%**

[Exhibit 2 Business Portfolio of KT]

Remarks	1999	2005
Local, Long distance, International, Public phone	56%	45%
Interconnection	26%	18%
Internet, Data communications	16%	30%
Wireless, Satellite	1%	6%
Others	1%	1%

Ⅳ. Case Studies of Internet Business

4. 1. Amazon.com

Overview

Amazon.com, Inc. is the world's leading online retailer. Amazon.com was incorporated in 1994 in the state of Washington and reincorporated in 1996 in Delaware. In 1995 it started as a small online bookseller. Amazon.com's headquarter is located in Seattle, Washington. Amazon.com completed its initial public offering in May 1997. As of the end of 1999, Amazon.com employed approximately 7,600 full-time employees and employed independent contractors and temporary personnel. At the end of 1999, it had served over 17 million customer accounts in over 150 countries.

Despite soaring revenues, strong brand recognition and evidence of premium extraction, Amazon's losses have been widening because of increased spending to promote the Web site, investing in other companies, expanding distribution capacity and adding new products. In September, 1999, Amazon.com introduced zShops, a storefront hosting product. It also invested in other e-commerce merchants such as

Drugstore.com, HomeGrocer.com and Pets.com.

Management Style

According to CEO Jeff Bezos, the most important thing that is hard to duplicate is Amazon's own culture of customer obsession. It pervades customer service, logistics, software and marketing. Companies' cultures are impossible to copy. Once a company has a culture, it's like quick-drying cement.[1] Bezos argues that personalization through extensive interaction with customers will be a crucial driver of loyalty to Amazon. Personalization at Amazon.com is still relatively unsophisticated. In addition to past purchases and searches, variables that are being introduced in the personalization algorithms include demographics, purchase patterns in different product categories and purchase patterns of similar customer groups. The ultimate objective is for each customer to have his/her own, unique storefront. [2]

Analysts expect Amazon to begin breaking down overall performance by division.[3] Jeff Bezos said that the books, music and video division would be fully profitable during 2000, and asserted profitability was important, but it was long-term profitability that was important, not

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[1] George Anders, "The View from the Top." *Wall Street Journal* (July 12, 1999): R52
[2] Kostas Sgoutas, "Pricing and Branding on the Internet." *Graduate School of Business, Stanford University*. EC-8 (January 2000)
[3] Ibid.

short-term profitability.[4]

Marketing Strategy

Amazon seeks to be the world's most customer-centric company where customers can find and discover anything they may want to buy online. Amazon offers its customers a superior shopping experience by providing high value through selection, convenience, ease of use, low prices, product information and an intense focus on customer service. It is a proven technology leader, having developed electronic commerce innovations such as 1-Click technology, personalized shopping services, easy-to-use search and browse features, secure payment protections and wireless access to its stores. [5]

Amazon has quickly established itself as a product magnet and today is synonymous with book retailing on the Web. Amazon offers customers virtually every book available, provides access to reviews, to book discussion groups, and even to authors themselves. It also offers a number of other services, such as notifying readers by E-mail when a new book is available, and recommending books based on patterns perceived in customers' past purchases.[6]

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[4] Reuters, "Amazon-Striving for Profitability." (April 27,2000)
[5] Amazon's Annual Report 1999
[6] Shirhar Ghosh, "Making Business Sense of the Internet." *Harvard Business Review* (March-April 1998): 133-134

In addition to books, it directly offers for sale millions of distinct items in categories such as books, music, DVDs, videos, toys, electronics, software, video games and home improvement products.[7] Amazon has pursued a very aggressive growth strategy. " We hope to offer hundreds of additional market opportunities in the next few years" said Bezos, CEO of Amazon.

The following are customer-value propositions.

1. leave visitors to the site with a positive impression.

Even if they don't buy on their first visit there, surfers are likely to bookmark the site for that time when they need a book in a hurry.

2. give potential buyers other reasons for visiting the store.

Besides selling the product itself, they have to sell the sizzle of doing business on the Web.

3. make customer's encounters with the company a delight.
4. personalize and customize service.
5. perform as promised and exceed expectations.
6. communicate the importance of customer satisfaction beyond all other values.
7. create ownership.

Employee commitment is tied to customer value, and employee

[7] Amazon's Annual Report 1999

commitment can be built on motivation and ownership.

8. do something better than anyone else does it.

Amazon offers "the world's largest selection" at discounted prices with the click of a mouse.

9. market knowledge as well as product knowledge.

Amazon provides information for those who can't remember a book or video title or are looking for a sound but don't know exactly what they want.[8]

Amazon's marketing strategy is designed to strengthen the Amazon brand name, increase customer traffic to the Amazon Web sites, build customer loyalty, encourage repeat purchases and develop incremental product and service revenue opportunities. Amazon creatively applies technology to deliver personalized programs and services, as well as flexible merchandising. The company employs a variety of media, business development and promotional methods to achieve these goals, and also benefits from public relations activities as well as online and traditional advertising, including radio, TV and print media. And Amazon extends its market presence through its Associates Program, which enables associated Web sites to make products available to their audiences with order fulfillment by Amazon. As of the end of February,

[8] Rebecca Sauders, Business the Amazon.com Way (1999)

2000, approximately 430,000 Web sites have enrolled in the Associates Program.[9]

Amazon's current technology strategy is to focus its development efforts on creating and enhancing the specialized, proprietary software that is unique to its business and to license or acquire commercially developed technology for other applications where available and appropriate.

Amazon intends to leverage its Internet platform to expand the range of products and services offered to its customers. This platform consists of strong brand recognition, a large and growing customer base, innovative technology, extensive and sophisticated distribution capabilities and significant e-commerce expertise.

While Bezos believes in the efficiency of non-negotiable and fixed prices for commodity products, he thinks that auction pricing is a wonderful mechanism for price discovery most suitable for unique items, or for items where the price changes rapidly. And it is hard to know what the current fair price should be. But there is another reason why he believes that auctions will be an important part of Amazon's future. The "referral business" as Bezos calls it, will permit Amazon to sell products

[9] Amazon's Annual Report 1999

it doesn't need to stock. [10]

Amazon, therefore, has been relatively successful in translating its customer focus and aggressive marketing spending (approximately 22 cents per dollar of revenue) into a strong consumer brand. According to Nick Shore, a co-founder of brand agency, NickandPaul, Amazon asserts that it is not a book brand, but a convenience brand with books, music, auctions, video. Amazon is part Internet-fueled. It realizes its competitive set is not just other bookstores. It can go anywhere. [11]

[10] Kostas Sgoutas, "Pricing and Branding on the Internet." *Graduate School of Business, Stanford University.* EC-8 (January 2000)

[11] Erik Brynjolfsson and Michael D. Smith, "Frictionless Commerce? A Comparison of Internet and Conventional Retailers"

4. 2. Hewlett-Packard(HP)

Overview

Hewlett-Packard(HP) is a leading manufacturer of computer products, including printers, services, workstations, and personal computer. In 1999, HP generated revenues of USD 42.4 billion and net income of USD 3.1 billion. Its global reach is extensive, with over 80,000 employees worldwide. In 1998 HP was the thirteenth on the Fortune 500 list and the forty-first on the Fortune Global 500.

In 1939 Bill Hewlett and Dave Packard, two Stanford University engineers, founded their company in a one-car garage in Palo Alto. Its first product was an audio oscillator, an electronic test instrument used by sound engineers. In 1947 it was incorporated, and in 1957 it did the first public stock offering.

In 1980 HP introduced its first personal computer, the HP-85, and also introduced the first desktop mainframe, HP 9000 technical computer with 32 bit "Superchip" technology. In 1982 HP's most successful single product, HP LaserJet Printer, was introduced.

In 1999, Carly Fiorina, former top executive from Lucent Technologies Inc., was appointed as President and CEO. Her appointment comes at a critical juncture for HP, which is spinning off its extensive

test and measurement assets into a new company named Agilent Technologies and repositioning its computer and printer businesses to seize more Internet opportunities.

Management Style

HP has a simple goal: to invent something useful. In addition to building great products, it defined its own unique culture and method for doing business. Later this would be called "The HP Way." Wanting to avoid the command-and-control style of many organizations, Hewlett and Packard felt that HP should have a decentralized management style. When an organization achieved a certain size, it spun off into its own division. Despite a push to decentralization 'The HP Way' succeeded in creating a unifying corporate culture. It stressed trust, openness, and decisions made by consensus, which led to an egalitarian culture. It resulted in a loyal workforce. Still, HP was known for being conservative. While decentralization and the HP Way had served growth well when HP was smaller, some of its elements would be detrimental in today's HP. [1]

In 1998, because of HP's decentralized style, no division on the organization chart owned strategy. Lew Platt, HP's CEO, hoped to break from the decentralized structure to create one organization that would

[1] Michelle Moore and Cara Snyder, "HP E-Services. Solutions." *Graduate School of Business, Stanford University, EC-16* (May 2000)

drive an overall company's strategy. In particular, he wanted an Internet strategy. He made a task force team to treat the matters. The team stepped back and considered the evolution of the Internet. And it formed a major branding campaign touting HP's new Internet strategy. The three keys of the strategy were services, appliances, and infrastructure, and HP was uniquely positioned to deliver on those things. First, HP was creating services or helping other companies create services. HP Labs, the company's cross-divisional R&D unit, would create technologies to support those services. Second, appliances would proliferate to the point where anything with a microchip would connect to the web, and HP was the world's third largest appliance company. Third, infrastructure-computers, storage and software had to support the transactions and appliances. [2]

The achievements of an organization are the result of the combined efforts of each individual in the organization working toward common objectives. These objectives should be realistic, should be clearly understood by everyone in the organization and should reflect the organization's basic character and personality.

Profit: to achieve sufficient profit to finance company growth and to provide the resources HP needs to achieve its other corporate objectives.

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[2] Ibid.

The profit HP generates from its operations is the ultimate source of the funds HP needs to prosper and grow. HP measures its profitability not just as a return on sales but, increasingly important, as a return on the value of assets needed to produce its profits. These profitability measures, which will vary among its individual businesses, are absolutely essential indicators of corporate performance over the long term.

Customers: to provide products and services of the highest quality and the greatest possible value to customers, thereby gaining and holding their respect and loyalty. HP's view of its relationships with customers has been shaped by two basic beliefs. First, HP believes the reason HP exists is to satisfy real customer needs. Second, HP believes that those needs be fully satisfied only with the active participation and dedication of everyone in the company.

Fields of Interest: to participate in those fields of interest that build upon technologies, competencies and customer interests, that offer opportunities for continuing growth, and that enable HP to make a needed and profitable contribution. HP' growth has been generated by a strong commitment to research and development in electronics and computer technology. That growth has been accomplished by providing a rapid flow of new products and services to markets HP already serves, and by expanding into new areas that build upon its existing technologies,

competencies and customer interests.

Growth: to let HP's growth be limited only by profits and ability to develop and produce innovative products that satisfy real customer needs. HP does not believe that large size is important for its own sake; however, for at least two basic reasons, continuous growth in sales and profits is essential for HP to create shareholder value and achieve other objectives.

Our People: to help HP's employees share in the company's success which they make possible; to provide them employment security based on performance.

Management: to foster initiative and creativity by allowing the individual great freedom of action in attaining well-defined objectives. In the concept of "management by objective", each individual at each level in the organization should make his or her own plans to achieve company objectives and goals. "Management by objective," as opposed to management by directive, offers opportunity for individual freedom and contribution; it also imposes an obligation for everyone to exercise initiative and enthusiasm. The dynamic nature of HP's business places an important responsibility on managers to create an environment that embraces change and helps employees manage the increasing demands of work with their other life activities. This requires a high degree of

flexibility and a willingness to consider nontraditional approaches to getting the job done.

Citizenship: to honor HP's obligations to society by being an economic, intellectual and social asset to each nation and each community in which HP operates. [3]

Marketing Strategy

HP's marketing strategy entails predicting what the winning e-services would be and figuring out end market segments that would be their lead adopters. The list of launch points for e-services include the following nine segments:

1. Mobile and wireless
2. Internet data service providers and telecom companies
3. Dot coms and start-ups
4. Trading communities and business hubs
5. Small to medium-sized businesses
6. Incubators and VCs
7. Printing e-services
8. Corporate information portals

[3] Hewlett-Packard Annual Report 1999

9. Digital media and publishing and education e-services [4]

In the areas where HP had an appropriate asset or service in house, HP could directly be an e-service provider. For other e-services that HP wanted to deliver that were not core to HP, HP would look for partners who could provide the e-services. In addition, it thought about the stack of services, software and hardware that enabled a provider to deliver the e-service. The stack included the product or service, the network infrastructure, billing, security, etc. Either HP would provide the enabling technology in the stack or partner with someone who could. Building this ecosystem of partners was key: it would allow them to provide services or technologies HP didn't have in house, and it would attract more partners who wanted some of the plug and play solutions HP was lining up.

HP's e-services complemented its technology solutions with a bundle of non-traditional options. HP funded equity investments in start-ups and extended creative financing terms to start-ups looking to invest in and HP platform. And HP offered "membership" in the network it was creating, consulting, and leadership. Many of HP's partners have been start-ups strapped for resources or brick-and-mortar companies looking for fast one-stop solutions to enter the Internet space. The opportunities

[4] Ibid.

to secure an HP platform, to finance HP computers and software in creative ways, to gain marketing and sales support from HP, and to share business risk would be attractive to them. Such advantages would both attract and retain partners.

In competitive positioning, HP's e-services were positioned well versus its main competitors, Sun Microsystems and IBM. Historically, these two firms had been the company's top two rivals. In comparison to Sun, HP believed its technology choices, financing and sales reach were better. First, HP built UNIX, Linux or Windows NT platforms; Sun offered only UNIX. Second, Sun had no financing itself and instead had a financing deal in place with GE Capital, which HP believed prevented Sun from extending riskier financing opportunities. HP had a substantial financing operation which was prepared to be risk seeking in its deals. Third, Sun didn't have a PC business, while HP was unique in that it marketed and sold its products to both enterprises and individual consumers. If a dot com were looking for marketing and sales support, no one had better reach than HP.

As for IBM, it needed to sell consulting as the bulk of its e-business offering. HP, on the other hand, involved a network of partners who would supply plug and play pieces of the stack such that a partner did not have to face a complicated internal implementation plan.

By May 1, 2000, HP e-services had announced alliance partnerships with 41 partners including Ariba (a vendor of operating resource management systems), Qwest Communications (a telecommunications service provider with a nationwide, high-capacity fiber optic communications network), and Yahoo! (a portal and Internet media company).

HP's success, therefore, depended on many things: changing the marketing perception of HP; executing well on the deals; and successfully pulling together people, other divisions, and technologies from inside HP. HP has been piloting new cultural initiatives for HP and launching corporate-wide initiatives to change how HP operates.

4. 3. Korea Telecom(KT)

Overview

Until December 1991, Korea Telecom had monopolized the voice telecommunications market in Korea. Competition, however, was first introduced to overseas call market in December 1991, then to the long distance market in January 1996 and finally to the local loop market in April 1999. In October 1997, the Act on the Management Reform and Privatization of Public Enterprises was put into place. With the abolition of the Korea Telecom Act, KT was changed into a joint-stock corporation, according to the Commercial Law. KT shares were listed on the Korea Stock Exchange in December 1998. [1]

KT's corporate philosophy is to harmonize human beings and telecommunications in order to link people together, harmonize information and telecommunications to create new and convenient services, and harmonize human beings and information to pursue the enhancement of values in life. [2]

The business environment of information technology is fundamentally changing the industry structure. KT has continuously carried out corporate restructuring in various areas. It was the first to

[1] http://www.kt.co.kr
[2] Korea Telecom's Annual Report 2000

introduce a contract management system among the Korean state-owned companies. KT has made efforts to reengineer its business processes, introduced a new personnel management system, and revamped business and organizational structures. In 1999, 7,721 employees were discharged, and at the end of 1999, total employees were 48,990, a reduction of 13.8 percent from the previous year. [3]

In 1999, KT generated revenues of approximately USD 8.5 billion, a 9.4 percent increase over 1998. Operating expenses increased 9.2 percent from the previous year and net income increased by 48.0 percent to USD 339 million (Exhibit 1). [4]

President and CEO, Kye-Cheol Lee said, "Openness, competition, and paradigm change are the three challenges that Korea Telecom faces. In order to meet and overcome these challenges, we have streamlined our organization and changed our business portfolio from voice services to Internet-oriented data business, from the network to information distribution." [5]

Therefore, Korea Telecom is launching new businesses to become the cyber-world leader and is focused on developing the Internet and data businesses as its main businesses.

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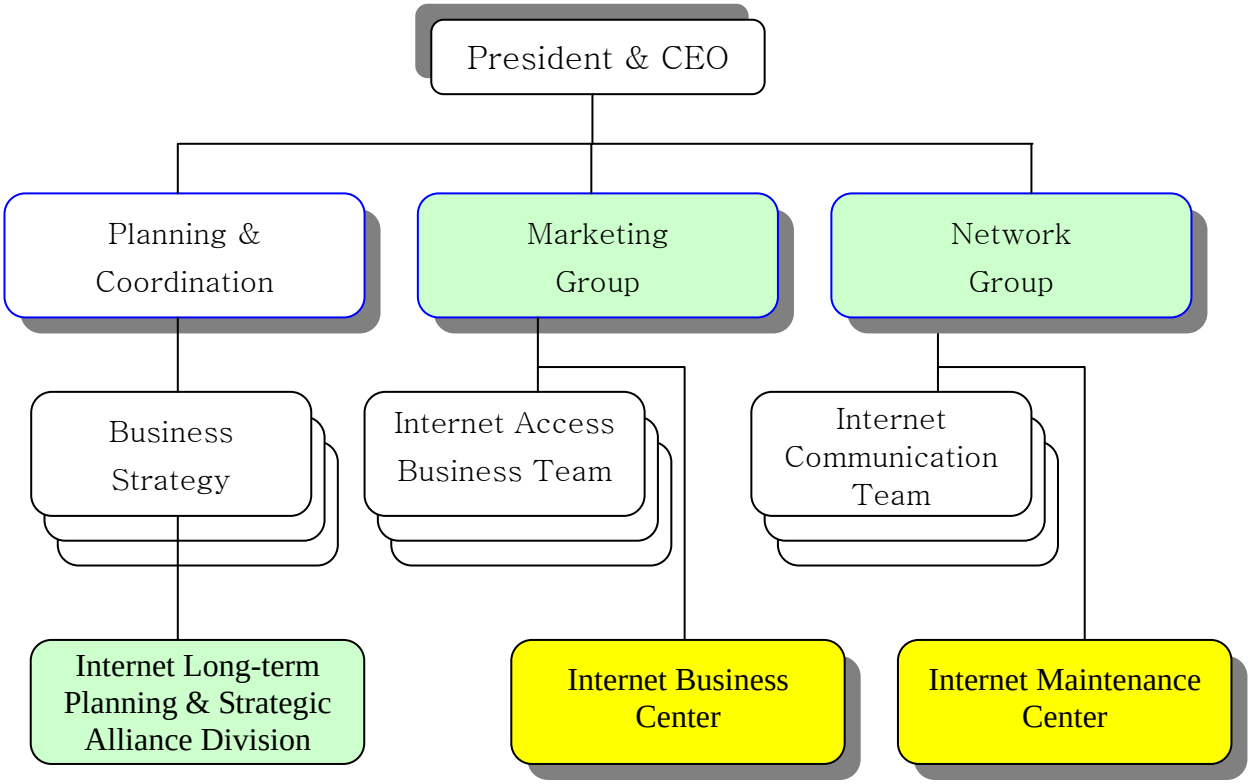
[3] Korea Telecom's Annual Report 2000
[4] http://www.kt.co.kr
[5] Korea Telecom's Annual Report 2000

Management Style

As of March 2000, Internet related businesses in KT were dispersed in many organizations that were not directly relevant to the Internet. For example, Internet Business Center belonged to the Marketing Group and Internet Maintenance Center to the Network Group. [6]

[6] Ibid.

[Figure 4-1 KT's Internet Related Organizations]



This organizational structure lacks flexibility in decision-making, and no one is responsible for corporate profits and losses. The important and critical decision makings about Internet long-term planning and strategic alliances are made by the Planning and Coordination Group in Headquarters. But the implementation of the Internet marketing and maintenance is separated by several other groups. KT's management style is still conservative, and lacks speed of decision making and flexibility. The bureaucracy and impediments to "getting things done speedily" are due to the protection of regulation and monopolistic power in the past.

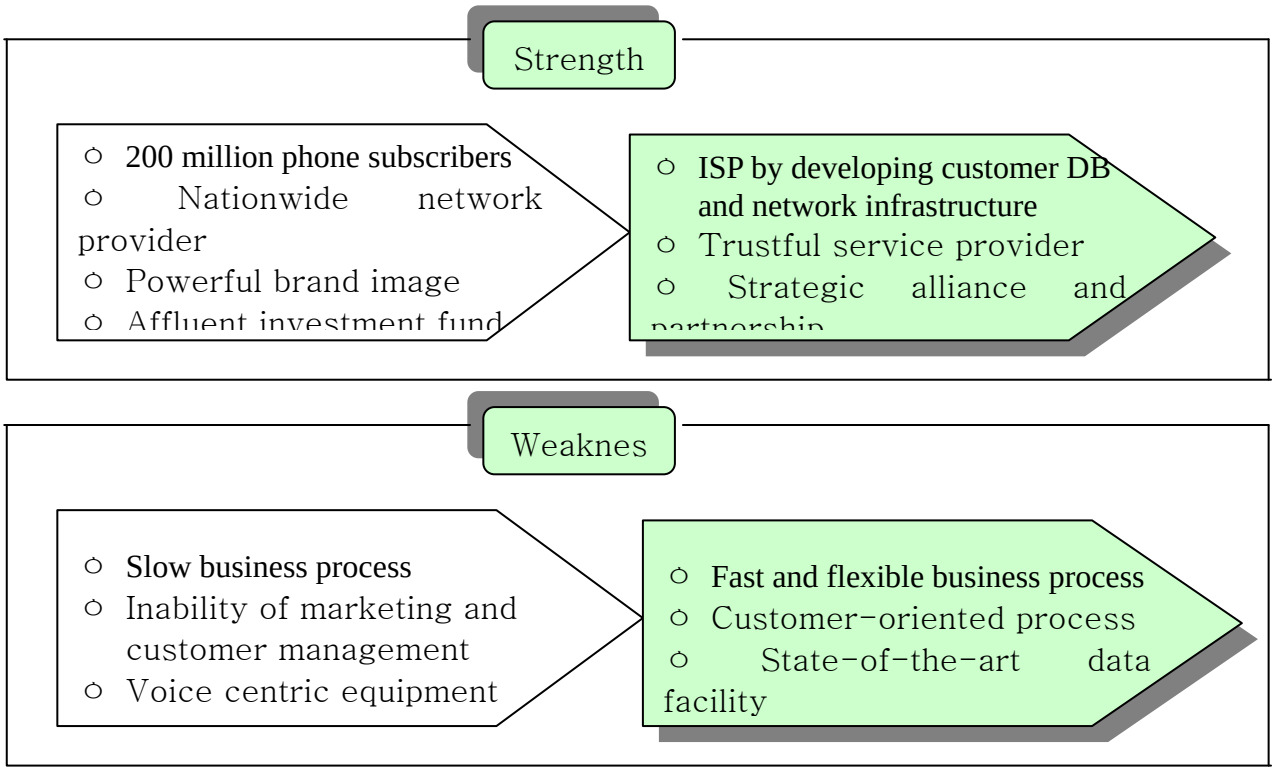
Marketing Strategy

In 1999, revenues from Internet services were USD 110.3 million, a very small

portion of total earnings (about 1.3 percent), but annual growth rate was 303.6%. In 1999 data and Internet businesses recorded sales of USD 1.37 billion, a 24.2 percent from that of 1998. KT, however, plans to change the business portfolio whereby Internet and data business will take up 30% of total revenue in 2005 (Exhibit 2). [7]

KT has a network infrastructure, over 200 million telephone subscribers, and a powerful brand image. KT also has weaknesses: impediments of regulation, slow business process, inefficient customer management, etc. Therefore, KT should change the overall marketing strategy to customer-oriented business processes.

[Figure 4-2 KT's Strength and Weakness]

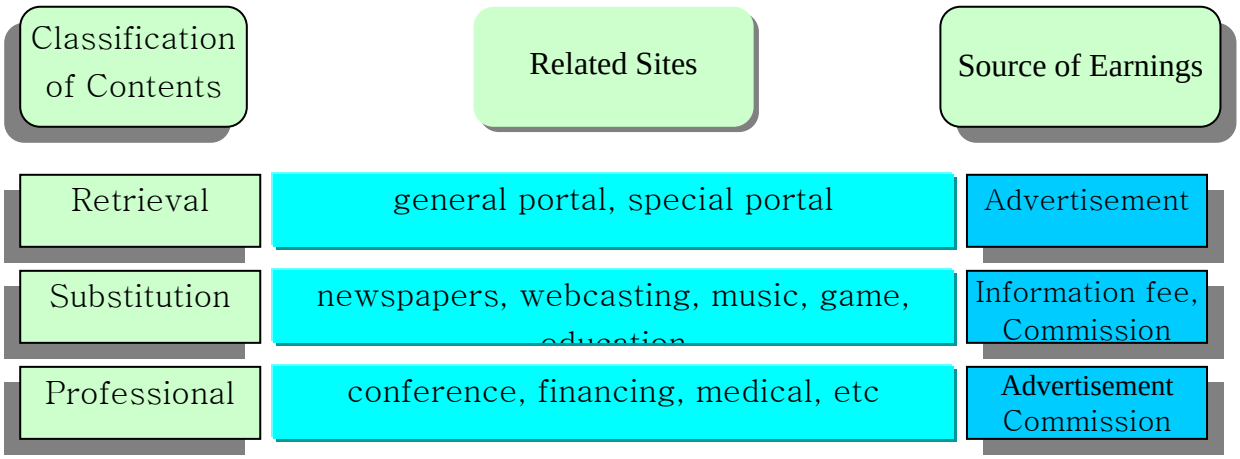


KT should focus on the following three Internet businesses: Internet contents business, e-commerce business, and hosting business. First, Internet contents business

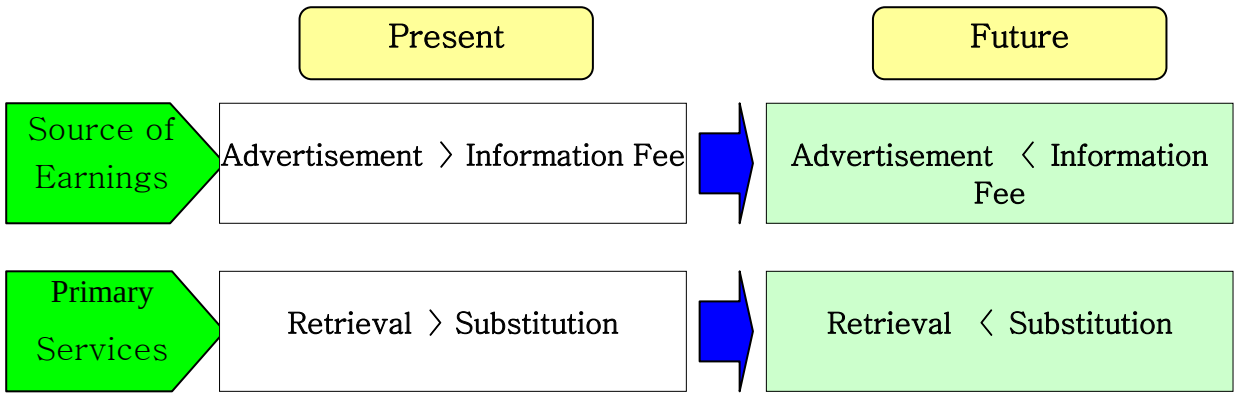
[7] Korea Telecom's Annual Report 2000

provides the digital information through the Internet. It includes general portal, special portal, newspapers, Internet broadcasting, education, financing, etc. The main source of present earnings is advertisement, but in the future, information fee will be the main source of earnings through charging for contents.

[Figure 4-3 Internet Contents Business]



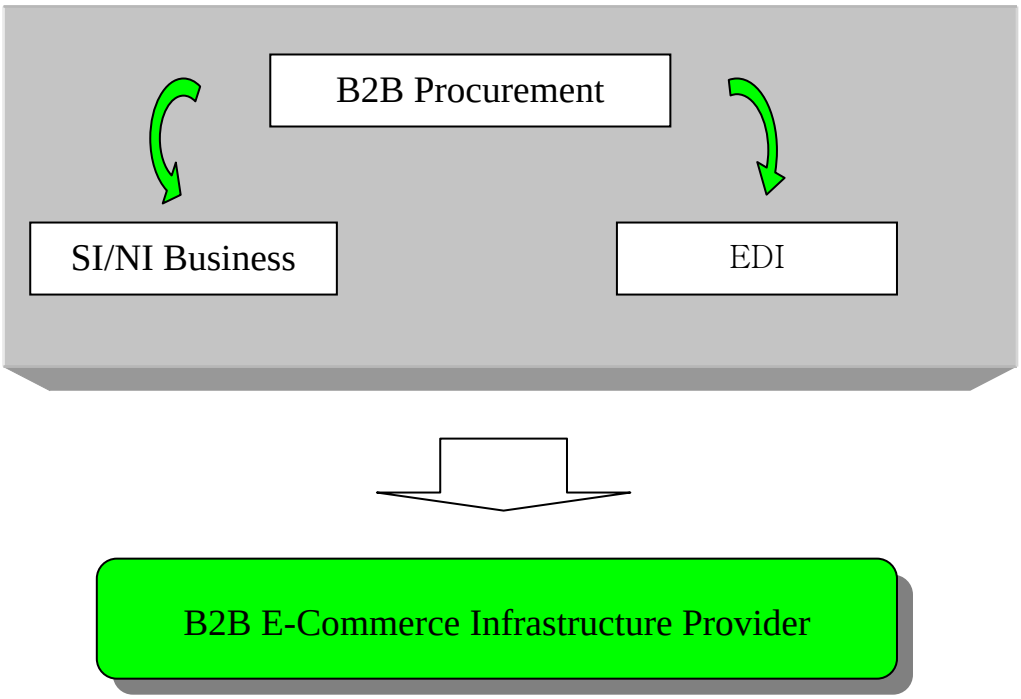
[Figure 4-4 Changes of Earnings and Services in the Internet Contents Business]



Second, in e-commerce KT should concentrate on the B2B market. KT has played the important role in operating network infrastructure such as system integration(SI)

business and network integration(NI) business. Now it is time to build procurement and Electronic Data Interchange(EDI) business.

[Figure 4-5 KT's E-Commerce Strategy]



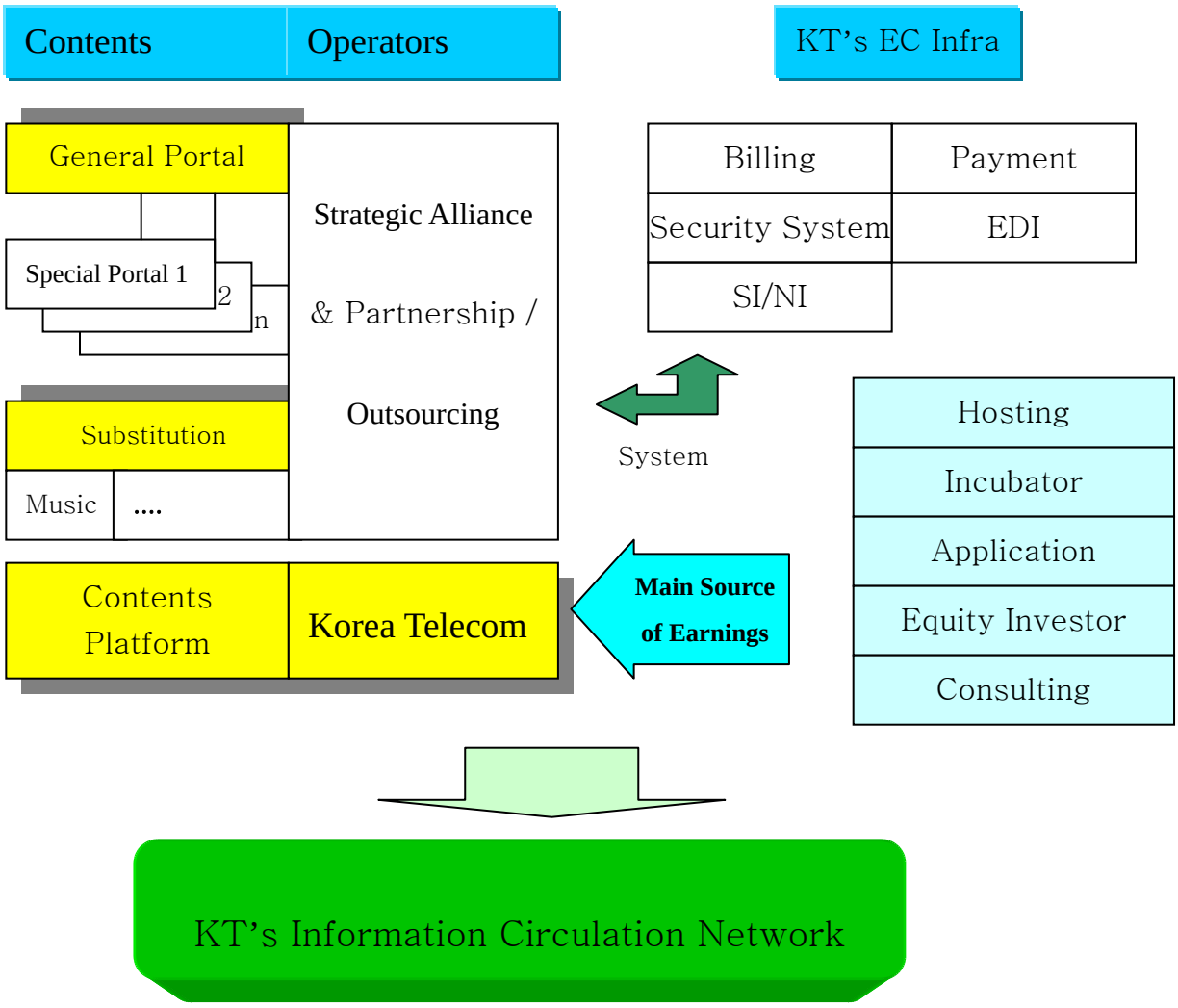
Third is the hosting service business. A hosting service provides the Internet business infrastructure to the business customer who wants to run Internet business. It provides web server, network infrastructure through Internet Data Center(IDC). This business is KT's core infrastructure business.

KT, therefore, should change many things in Internet business. KT should seek for a separate organization for Internet business, and spin off the Internet business in the long run. Internet business needs a fast and flexible decision-making process. As the Internet market has been rapidly changed, the evolution of Internet business should be suited for the right time and the right position. KT should keep and extend the Internet infrastructure such as Internet backbone networks, Internet superhighway, content

platform and webcasting platform, security technology, and electronic payment system, etc.

KT should form strategic alliances with its competitors, make equity investment in venture businesses, and foster start-ups to expand Internet contents business.

[Figure 4-6 Future Direction of KT's Internet Business]



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http://www.nua.ie

http://www.oecd.org