

The Baby and the Bathwater

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It has been said that there are two ways to get rich, good luck and good judgement. It has also been suggested that the two are mutually exclusive. Taking a well known lottery as an example every pound spent on a ticket is highly likely to be a pound thrown away, but somebody gets very rich from just such an idiotic investment virtually every week. My point is that when it comes to investment as opposed to a bit of fun in the casino good judgement is rarely glamorous

If ever there was a time to understand the difference at least in the field of IT it is now. 12 months ago investing in e-commerce and technology stocks was the height of fashion and consequently rather too much attention was being paid to the superficial badges which might signify membership of the 'new economy' and not enough to the mundane practicalities of business plans and cash flows. Now the pendulum has swung the other way and bruised venture capitalists and pundits espouse such manly virtues as profits and customers to the exclusion of all else.

Meanwhile there are those who are rather hoping that the whole e-commerce business may have gone away for good because they never really believed in it (understood it) anyway.

Looking back over the last couple of years it is ironic to note that against the current backdrop of high profile failures in e-commerce ventures the actual rate of growth of the market for these services has if anything exceeded expectations. Recent estimates put the proportion of UK households with internet access at 40% and here in the Isle of Man it is even higher at around 50%. Meanwhile the take-up in the workplace is higher still with over 70% of businesses being internet enabled to some extent.

So why the failures? The answer is simple, there never was and never will be such a thing as a new economy. There are certainly economic trends and even more importantly there are efficient and forward looking companies who profit from new technology. But whilst the number of households having internet access may be growing exponentially their spending on books, holidays and so on is not. In other words any new entrant has to share the market with existing players regardless of their route to market.

It is most unfair but the real winners in the e-commerce world will in the main be existing companies with a strong brand and a strong balance sheet who can exploit this new and highly lucrative channel on the strength of their existing business. They buy cheaper because they already sell in volume, they spend relatively less on advertising because they already have an established brand, and they can integrate the advantages of the internet with the need to

provide human interaction either face to face or more often on the phone through their existing infrastructure. They just have to get on with it.

Hence the title of this piece, just because someone you know (of) may have lost their shirt gambling on half-baked dot coms it doesn't mean that e-commerce is dead. On the contrary it is alive and kicking and learning to walk. The bathwater which was positively muddy with greed and ignorance may be long gone but the baby, whilst it still has much to learn, has its whole future ahead of it.

On this note it is very pleasing to see from our recent budget that the Isle of Man Government at least (www.gov.im) is steadfast in its commitment to the development of e-commerce on the Isle of Man. I for one am convinced that the next wave of development in this field will be focussed on profitable businesses, and profitable businesses are interested in tax efficient locations with good business services and high quality infrastructure.

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