



## INTERNET ECONOMY

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### ABSTRACT

*Internet economy refers to economic activities where Internet acts as the core infrastructure. This “new economy” has caused a decisive shift from producer to consumer power, i.e. power structure between buyers and sellers has shifted in favor of buyers. To compete well in this economy requires that companies rapidly evaluate new business opportunities and dynamically identify potential partners. This paper provides a brief introduction to Internet economy.*

**Key Words:** *Global Internet Economy, Cyber Economy, Network Economy.*

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### 1. INTRODUCTION

The information revolution has touched almost every aspect of the economy. The Internet technologies and applications have grown more rapidly over the last two decades, opening up new opportunities of interaction between consumers and enterprises. The new economy enables businesses to create value by leveraging the Internet to expand their reach to customers and establish virtual markets. The successful players in this new economy are the businesses that leverage Internet technology, information, and knowledge in every area of their business operations. to create value, productivity, and efficiency.

The Internet economy (IE) refers to business conducted through markets whose infrastructure is based on the Internet. It differs from a traditional economy in a number of ways, including: communication, market segmentation, distribution costs, and price. While traditional economy is based on division of labor and scarcity of resources, Internet economy is mainly based on information with the feature of limitless reproduction [1]. It is a fundamental tenet of IE that information is power. You can make a better choice when you have information.

The Internet economy in the developed markets will grow at an annual rate of 8 percent over the next five years, far outpacing just about every traditional economic sector. The Internet economy would rank among the top six industry sectors in developing countries such as China and South Korea. The growth is largely due to increase in number of users, faster computing technology, and more ubiquitous, low-cost Internet access. The increase of users has brought the explosive increase of Internet economy and prompted rapid growth of social economy.

### 2. IE FEATURES

As illustrated in Figure 1, the Internet economy comprises these components [2,3]:

- *Electronic network:* The pillar of IE is electronic connectivity. This consists of computer networks with software applications spanning the globe. The growth of IE depends on the ubiquitous presence of high speed and intelligent electronic networks. Accordingly, the Internet infrastructure layer includes companies that manufacture or provide products and services. The elimination of geographical boundaries supports the formation of communication networks that are based on shared interests.

- *Applications:* In IE, there is a strong relationship between the network infrastructure, Internet applications, and e-commerce. Digital products companies offer products directly through their web sites and related applications. Applications and services will come from different sources. Products and services in this layer make it possible to perform business activities online. For example, Web design, Web consulting, and Web integration are considered as a part of this layer.
- *Intermediaries:* Internet economic activity may involve transactions with electronic intermediaries or direct online transactions between producers and buyers. Through the Internet, buyers and sellers have opened up lines of communication that are cutting out layers of middlemen. Internet intermediaries act as catalysts in that they increase the efficiency of electronic markets by facilitating the interaction between buyers and sellers. They are distributors and dealers, whose primary role is to increase the efficiency of distribution.
- *Online transactions:* These are companies that generate Internet-based transactions. These include online retailers (selling books, music, flowers, apparel over the Web), manufacturers, online entertainment, and shipping services. Businesses are realizing that selling and dealing with their chain of suppliers online is convenient, efficient, and cost-cutting.

We should keep in mind that each layer of the Internet Economy is critically dependent on every other layer.

## 2.2 IE APPLICATIONS

Our reliance on the Internet for business and social activities continues to increase. Besides its productivity enhancing effects, the Internet has become an integral part of our social and economic lives. It has impacted our education, healthcare, economy, environment, government, entertainment, etc. Internet economy has benefited banking and allied services such as electronic transfer and withdrawal of money, the widespread use of Automated Teller Machines (ATM), credit cards, and smart cards. Internet economy is applicable in other areas including business services facilitating the buying and selling process, messaging and information distribution, multimedia content, Internet consulting, entertainment, and online education [4].

## 2.3 ISSUES AND CHALLENGES

Although IE offers many benefits, it faces some challenges. The quantity of information available for the consumer has drastically increased. Buyers face the problem of information overload (other terms used include information explosion, information deluge, information confusion, and information chaos). Information overload is having too much information with only a finite ability to process it. It is reduction in efficiency due to indiscriminate production of information. Because of information abundance, no single individual can access all the available information [5].

Since IE is a new field of study, scholars hold different views and they have not reached consensus on the core issues. There is no standardized method for measuring impact of Internet economy. Measuring the Internet and its economic impacts presents a number of significant data

challenges. This difficulty is partly due to the fact that the Internet is itself changing [6].

The rapid development of digital technologies is changing production processes and forms of interaction. To cope with fierce market competition and the highly volatile economy, Internet companies are forced to take different strategies and employ some changes. These include changes in product and service offerings, changes in customers, adjusting pricing model, establishing offline presence, readjustment to conserve cash, diversify their customer bases, and more effectively focus on higher-return market niches [7].

There is a lag between Internet policy design and its businesses due to the sheer speed with which the Internet has evolved. Too often policies and regulations for the internet are designed and implemented without appreciation for their short- or long-term impact. Developing Internet regulations without properly understanding the sector can seriously undermine the success of its businesses and users for years to come [8].

The benefits in the Internet economy are not uniformly distributed across nations. Active participation in the Internet economy requires dedicated Internet access which is limited and expensive in developing nations. Since mobile phones are prevalent in these nations, it seems that accessing the Internet over mobile networks will become a major, if not the dominant, mode. The government of each nation must provide an environment where IE can thrive.

## 3. CONCLUSION

The Internet economy has grown rapidly over the last two decades. The economic impact of the Internet is increasing and global. The borderless nature of the Web guarantees that in the economy of future will be increasingly global, electronic, and Internet-based. The Internet and allied services do more than just create new businesses and consumer products. They change the way that companies throughout the economy do business. Internet economy will be of central importance for sustainable development. Additional information on Internet economy is available in several books in Amazon.com.

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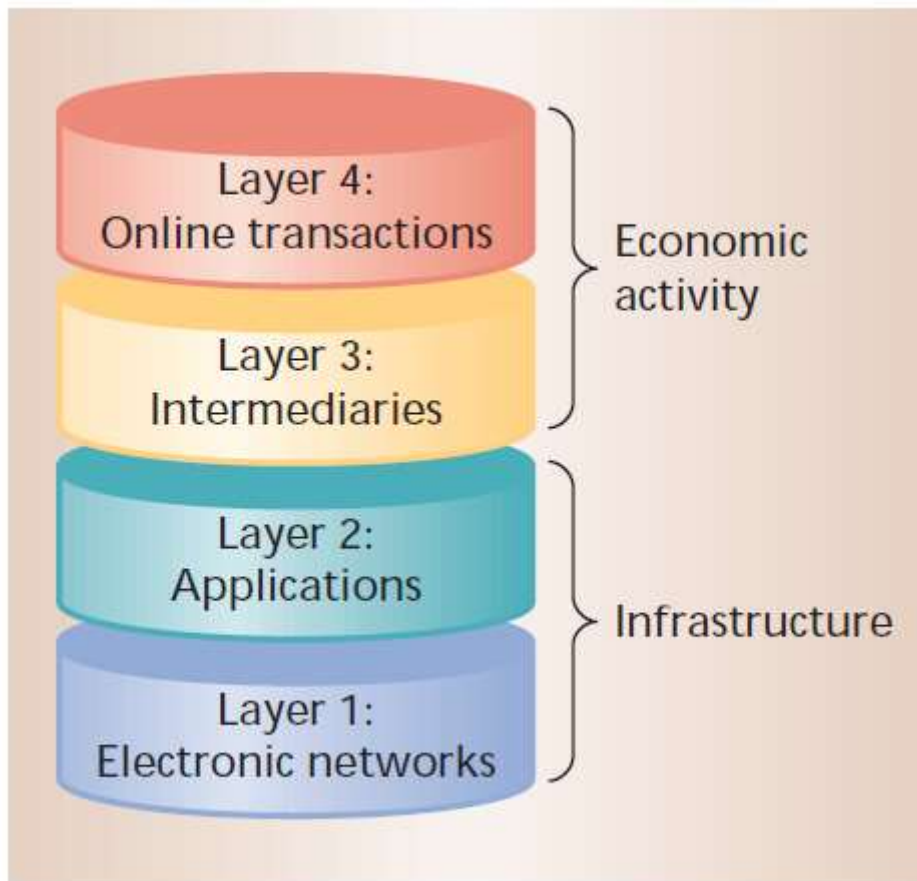


Figure 1. The Internet economy's four-layer structure [2].