E*Trade revolutionized the securities brokerage industry by “creating” Internet trading. E*Trade’s original strategy was to deliver cost savings to customers while amortizing fixed costs over a greater number of accounts. In 1997, several competitors established Internet sites and E*Trade was dethroned as the price leader. Its management team introduced a strategic initiative to transform the company into a financial, one-stop shop for investors. The initiative included expanding its information technology, improving its marketing and advertising program, and developing new strategic alliances.

By early 1999, E*Trade had established a popular Web site offering the convenience and control of automated stock, options, and mutual fund order placement at low commission rates. E*Trade’s success pleased management but was challenged by fierce competition and emerging ethical and operational problems.

BACKGROUND

The Securities Brokerage Industry

Before the securities industry deregulation on May 1, 1975, full-service brokerages charging fixed commissions were the only firms in the industry (Glasgall, 1999). A full-service broker is a stockbroker who gives personal attention and advice to clients and charges a flat fee or percentage of the transaction. Such a broker acts as an agent, providing advice and buying or selling securities for the client. The client interacts with the broker face to face or over the telephone. Full-service brokers provide a wide array of services, including investment strategizing, estate planning, and insurance advice, and they usually attempt to influence their clients’ investment decisions.

After deregulation, most full-service brokers began to target households with assets