Chapter V

The New Realities of Online Trading in the New Global Marketplace

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Stock brokering services are available via the Internet, and investors in many countries can currently experience the benefits of Web-based share trading. Internet-based share trading is far more than completing the same transaction over the Internet. The Internet contains a wealth of information, and many sites provide sophisticated facilities that allow the investor to research and monitor investments.

This paper examines how Internet-based share trading differs from more traditional forms of share trading. It then explores how Internet-based share trading is changing investment practices of private individuals and goes on to discuss how (with reference to Michael Porter's work on competition) the global nature of the Internet-based share trading will impact upon the players in the stock brokering competitive environment.

INTERNET-BASED SHARE DEALING

The Internet has brought about a new opportunity for business to trade with customers electronically and fundamentally changes the way business interacts with clients (Nath et al., 1998). The stock brokering sector is particularly suited to Web-based trading, as physical goods do not need to be delivered, thus eliminating the logistics problems which many e-commerce retailers experience. Internet-based share-dealing services enable investors to check real-time share prices and execute trades immediately (online). Payment for the shares is completed through direct debit transfer from an individual's bank account, or a debit is made from a holding account which has previously been set up with the broker.

Wap technology has emerged in recent years to allow users of Wap-enabled mobile phones to conduct share transactions. Although these systems are not as rich or sophisticated as the Internet-based services, they offer a convenient means of trading for many investors. The trend is for existing Internet-based brokers to provide additional Wap services for their clients.
Internet share dealing is often referred to as “online trading.” However, to avoid confusion with other types of online share trading systems it is referred to as Internet-based shared dealing or Web-based share dealing within this paper.

**Investor Benefits**

Internet-based share dealing provides an improved service for investors over more traditional dealing methods. The investor is able to deal at the price viewed immediately, whereas using more traditional dealing services, an investor will often have to wait in a telephone queuing system to get through to the dealing desk and when trading may have to wait for the price of a trade to be confirmed. The Internet investor also benefits from 24-hour, 7-day-a-week access to placing orders (although outside of trading hours deals will need to be placed as “limit orders,” where a limit price is given). Intense competition for clients has brought prices down, and Web-based share dealing services are typically cheaper than other forms of “execution only” dealing service. Lower prices, combined with the provision of company information services and portfolio services, make Internet share dealing an attractive option for investors who wish to use an “execution only” service in an information-rich environment. The Internet also gives investors access to deal in new products, such as equities traded on foreign exchanges, and futures.

**Broker Benefits**

From the stockbroker’s viewpoint, Internet share dealing is beneficial as it allows the broker to reach a wider customer base and potentially increase market share. Web-based share trading on the Internet may well attract people to dealing who, have never dealt before, thus allowing brokers to reach new groups of customers who by virtue of using the Internet, represent a higher than average income group (Ng et al., 1998). Reduced operating costs are also seen as a benefit of Web-based share trading (Carr, 1999). The level of share trading at any time is influenced by market conditions; there are days and times when trading is particularly heavy and traditional telephone-based services have difficulties in responding to these demand peaks, resulting in investors being unable to establish contact with their brokers. Internet-based share dealing offers a cost-effective solution to the demand peak problem (although steps need to be taken to ensure good availability of services). Customer transaction information is input by the customer, then automatically passed straight through to the back office systems, then through to the retail service provider; this “straight through” processing means less staff are needed to handle the transactions. Web-based trading also has the effect of increasing the number of trades completed by Internet account holders, which generates more commission for brokers. Use of the Internet allows stock-brokering companies to build up a wealth of customer information, which can be used to focus marketing material on distinct customer profiles.

**Internet-Based Share Brokers**

The market in the United Kingdom (UK) is growing rapidly. (In April 1999 there were just six UK based organizations providing Internet-based brokering services, now, two years later, there are over twenty-five organizations competing in this marketplace.) There are three main categories of players in this market; firstly, the traditional banks and stockbrokers who have ventured into Web-based trading; secondly newcomers who have not previously operated in this market but have seen opportunities in this area; and thirdly, interna-
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