E-Marketplaces

Exchanges

Pre-Internet: buyers/sellers came to one location—an exchange—to examine products and arrange deals. Electronic exchanges provide same structure, but without time and location sensitivity.
**Premise of a "market"**

**Market** or **Marketplace**: group of buyers and sellers coming together to exchange information, goods, related services, and payments.

- Markets create value for all parties.
- Markets provide an infrastructure to enable efficient operation.
- Technology increases market efficiency while lowering costs and automating many operational necessities.
- Technology increases competitive environment.

---

**e-Marketplace and Marketspace**

**E-Marketplace** or **Exchange**: online market in which buyers and sellers exchange goods or services.

- Term typically applied to B2B transactions.
- Three types:
  - Private, Public, and Consortium
- Logistics, payment, and other needed services often provided by other exchange participants.
- Policies must be established and maintained to provide efficiency.
**Exchange Product Structures**

**Vertical**—one *industry* represented.
- Example: Livestock exchange, Garment exchange, Farm Equipment

**Horizontal**—one *class of products* (not focused on a single industry)
- Example: Office supplies, Advertising, Gasoline
**Conventional (Non-Electronic) Exchange Process**

1. **Step 1**
   - Buyer → Request for proposal → Supplier k → Bidding
   - Bidding Sequence Repeated for k=1 to n

2. **Step 2**
   - Buyer → Evaluate, negotiate, and accept → Notify supplier
   - Proposal Evaluation and Acceptance

3. **Step 3**
   - Buyer → Goods shipped Payment → Selected supplier
   - Transaction Completion

**Electronic Exchange Process**

1. **Step 1**
   - Buyer 1: RFP → Exchange → Supplier A Bid → Supplier B Bid → Supplier C Bid → Supplier D Bid
   - RFPs Submitted and Bids Made

2. **Step 2**
   - Buyer 1: Best Bid → Exchange → Selected Supplier
   - Payment Less Commission, Logistics Services
   - Best Bid Accepted
## Functions of a Market

<table>
<thead>
<tr>
<th>Matching of Buyers and Sellers</th>
<th>Facilitation of Transactions</th>
<th>Institutional Infrastructure</th>
</tr>
</thead>
</table>
| • Determination of product offerings  
  Product features offered by sellers  
  Aggregation of different products  
  Price and product information  
  Matching seller offerings with buyer preferences  
  Price discovery  
  Process and outcome in determination of prices  
  Enabling price comparisons  
  Others  
  Providing sales leads | • Logistics  
  Delivery of information, goods, or services to buyers  
  Settlement  
  Transfer of payments to sellers  
  Trust  
  Credit system, reputations, rating agencies such as Consumer Reports and the BBB, special escrow and online trust agencies  
  Communication  
  Posting buyers’ requests | • Legal  
  Commercial code, contract law, dispute resolution, intellectual property protection  
  Regulatory  
  Rules and regulations, compliance, monitoring enforcement  
  Discovery  
  Provides market information (e.g., about competition, government regulations) |

---

**EXHIBIT 2.4** Functions of a Market  
**Sources:** Compiled from Bakos (1998) and from E-Market Services (2006).

---

## Participation in an electronic exchange

### Buyers—Advantages

### Buyers—Disadvantages
Participation in an electronic exchange

Sellers—Advantages

Sellers—Disadvantages

e-Commerce System Logistics

Front End System—portal to company computer resources. Portion of system that customer interacts with. Provides interface to underlying complexity.

Back End System—Processing not directly used by customers—fulfillment, inventory management, payment processing, accounting, etc.
Intermediaries assist by providing services on company's behalf.

Assistance can be online (like Akamai) or physical (like UPS).

Modes of doing business online

Similar to types of retailers—convenience store, department store, etc.
**Electronic Catalogs**

Presentation of product information in electronic form.
- Basic product display
- Logical navigation in various forms
- Search capability

Dynamic content in most applications.
May be standardized or customizable.
- Customized pricing, offers, merchandise display, recommendations, etc.
- May be creatively related to products (*My Virtual Model*)

May not allow customer ordering

**Storefront Model**

Most basic form of e-Commerce

Basic functions:
- Product display
- Fixed prices
- Merchandise accumulation (shopping cart)
- Checkout
Amazon.com

The #1 online retailer
Opened July 1995, $15.7 million in sales 1995
Sales of $600 million in 1996 (monthly growth rate of 34%) (2011 sales forecast to be $45 billion.)
By 1998, expanded into toys, electronics, CDs, software, video games, and more.
Spring 2000: Over 10 book million titles available (inventory of only a few thousand)
Lost money every quarter until 2002. (In 2001 it lost $1.4 billion.)
J.P. Morgan estimates net profit will grow to $1.7 billion in 2011 and $2.24 billion in 2012.

"What few people understood was that the reason that they didn't make money was that for the previous five years every time there was a trade-off between making more money or growing faster, we grew faster," said Nick Hanauer, an early investor and business consultant whose $40,000 investment in Amazon once was valued at $250 million. "It wasn't that there weren't lots of opportunities to make money. It was just that we had consciously foregone those opportunities to reach scale and make it impossible to duplicate what we had done. And voila!"
### Amazon.com

Inventory turnover in 1996: 42 (vs. 2.1 for typical Barnes and Noble brick-and-mortar). Stabilized now at around 11-12. Although at one time faced a debt problem, now virtually no debt.

Average Monthly unique visitors: 50-60 million

Number 3 in overall 2010 holiday shopping, number 1 online.

### Online mall

Provides different consumer value than a physical mall.

Single search engine across many stores.

Name recognition (of mall) may bring customers retailer wouldn’t otherwise get.

May provide for order processing automation (lowering demanded retailer expertise and equipment).

Cost to join Yahoo shopping mall (for smaller store): $39.95 per month plus 1.5% of revenue from each transaction.

http://smallbusiness.yahoo.com/ecommerce/
Portals

Bring together resources for ease of access. Virtual “meeting place.”

May be selling or information focused—or both.

Types:
- **Horizontal**—bring together information on a wide variety of topics (Yahoo!)
- **Vertical**—specialize in a single area of interest
- **Mobile**—particularly designed for mobile devices

Public, corporate, personal, voice, etc. Many variations.

Business model often advertising dependent.

Auctions

Auctions (even electronic) preceded WWW.

eBay has an 88% market share in online auctions.

2009 revenue: $8.7 billion, net income $2.39 billion

Dynamic Pricing

Prices that change based on supply and demand relationships at any given time.

Types:

Auction where buyers compete for products.

Name-Your-Own-Price: Priceline patented method of doing business.

How does Priceline work?

Forges relationships with suppliers (car rental agencies, hotels, airlines, etc.) to provide market for unreserved inventory.

Priceline offers opaque bid opportunity to customers.

Priceline suppliers specify price points for acceptable offers.

Priceline customers bid, and if their bid is greater than or equal to the available price point, the bid is accepted.

If customer overbids, Priceline keeps excess.

Knowledgeable consumers can get great deals in some instances.

Business model is patented.
Key questions for businesses to ask

Why go online? What is our rationale?

What’s in it for my customers?

Have I looked at costs vs. benefits?

How can I best sell to my customers? (what format or type of store?)

How can I differentiate myself from competitors?

Porter’s Competitive Forces

EXHIBIT 2.9 Porter’s Competitive Forces Model: How the Internet Influences Industry Structure

- Threat of substitute products or services
  - (+) By making the overall industry more efficient, the Internet can expand the size of the market
  - (-) The proliferation of Internet approaches creates new substitution threats

- Bargaining power of suppliers
  - (-) Procurement using the Internet tends to raise bargaining power over suppliers, though it can also give suppliers access to more customers
  - (+) The Internet provides a channel for suppliers to reach end users, reducing the leverage of intermediary companies
  - (-) Internet procurement and digital markets tend to give all companies equal access to suppliers, and provide arrangements to standardize products that reduce differentiation
  - (-) Reduced barriers to entry and the proliferation of competitors simultaneously shifts power to suppliers

- Rivalry among existing competitors
  - (+) Reduces differences among competitors as offerings are difficult to keep proprietary
  - (-) Migrates competition to price
  - (+) Widens the geographic market, increasing the number of competitors
  - (-) Lowers variable cost relative to fixed cost, increasing pressures for price discounting

- Barriers to entry
  - (+) Reduces barriers to entry such as the need for a sales force, access to channels, and physical assets anything that Internet technology eliminates or makes easier to do reduces barriers to entry
  - (-) Internet applications are difficult to keep proprietary from new entrants
  - (+) A flood of new entrants has come into many industries

- Buyers
  - (+) Eliminates powerful channels or improves bargaining power near traditional channels
  - (-) Shifts bargaining power to end consumers

- Bargaining power of end users
  - (+) Reduces switching costs
Manufacturers opening storefronts

Disintermediation: using e-business to bypass a former participant in a marketing channel.

May result in backlash from retailers.

Significant industry effect:

- Bookstores and music stores
- Computer hardware and software
- Travel agencies

The New Supply Chain