

Economics and Electronic Commerce

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I. INTRODUCTION

Integrating opportunities presented by e-commerce into successful real-world strategies has been and continues to be a great challenge. As the failure of many DotCom firms has illustrated, electronic channels have difficulty in competing with and replacing existing intermediaries; as the latter performs useful functions and have power in many markets. Firms operating in such markets have to be especially careful in formulating e-commerce strategies. Clemons and Aron create a taxonomy of products and markets that allow us to distinguish between markets in which purely electronic channels can succeed in markets in which they will not. This taxonomy is based on product characteristics, predictability of supply and demand, and distribution costs.

Even in market places in which electronic intermediaries may succeed initially, technology diffusion may make it harder in the future. In a business to business-to-consumer setting, Kocas examines the evolution of prices in markets where the percentage of shoppers who use price comparison engines to shop and buy increases over time as technology diffusion occurs. Even with price comparison shopping, some buyers remain loyal to branded retailers if the price difference is not too large. These effects are jointly modeled to illustrate how the prices in marketplace may evolve over time.

The problem of achieving profitability is even more acute for web sites that primarily offer digital content and are advertisement supported. The web site manager has to carefully balance the amount of advertisement and content that a typical user sees as the amount of advertising affects the profitability of the web site and its attractiveness to users. Dewan, Freimer and Zhang use a control theory-based model of this problem to develop a new measure of web site traffic that explains the market value of firms that have advertisement supported content sites.

Setting prices to maximize profits is not easy for business-to-business B2B exchanges either. Yoo, Choudhary and Mukhopadhyay show that an electronic intermediary has to consider network externalities in buyers' and suppliers' markets, aggregation benefits, and other market characteristics to determine optimal prices. Markus, Bannerjee, and Ma examine business to business-to-business marketplaces in Hong Kong – a country whose economy depends on import and export activities, i.e., and the intermediation activities that permit them to flourish. They describe the major conventional and electronic intermediaries in apparel and textile industries. They note that the market is highly fragmented on the buy and sell side and they predict significant pressures on conventional retailers. Olson, Anderson and Larsen examine the differences in efficiency and distribution of surplus when comparing digital and conventional auctions.

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