



Chapter 10

E-Commerce: Digital Markets, Digital Goods



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Chapter 10 E-Commerce: Digital Markets, Digital Goods

STUDENT LEARNING OBJECTIVES

- **What are the unique features of e-commerce, digital markets, and digital goods?**
- **What are the principal e-commerce business and revenue models?**
- How has e-commerce transformed marketing?



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STUDENT LEARNING OBJECTIVES

- How has e-commerce affected business-to-business transactions?
- **What is the role of m-commerce in business and what are the most important m-commerce applications?**
- What issues must be addressed when building an e-commerce presence?



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Chapter 8 Telecommunications, the Internet, and Wireless Technology

LEARNING TRACKS AND VIDEO CASES

Learning Tracks

1. E-Commerce Challenges: The Story of Online Groceries
2. Build an E-Commerce Business Plan
3. Hot New Careers in E-Commerce
4. E-commerce Payment Systems

Video Cases

Case 1: Groupon: Deals Galore

Case 2: Etsy: A Marketplace and Community

Case 3: Ford AutoXchange B2B Marketplace



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Uber Storms Europe: Europe Strikes Back

- **Challenge:** use smartphone platform for a new profitable business: moving people
- **Solution?** Build an on-demand platform for taxi services



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Uber Storms Europe: Europe Strikes Back

Uber:

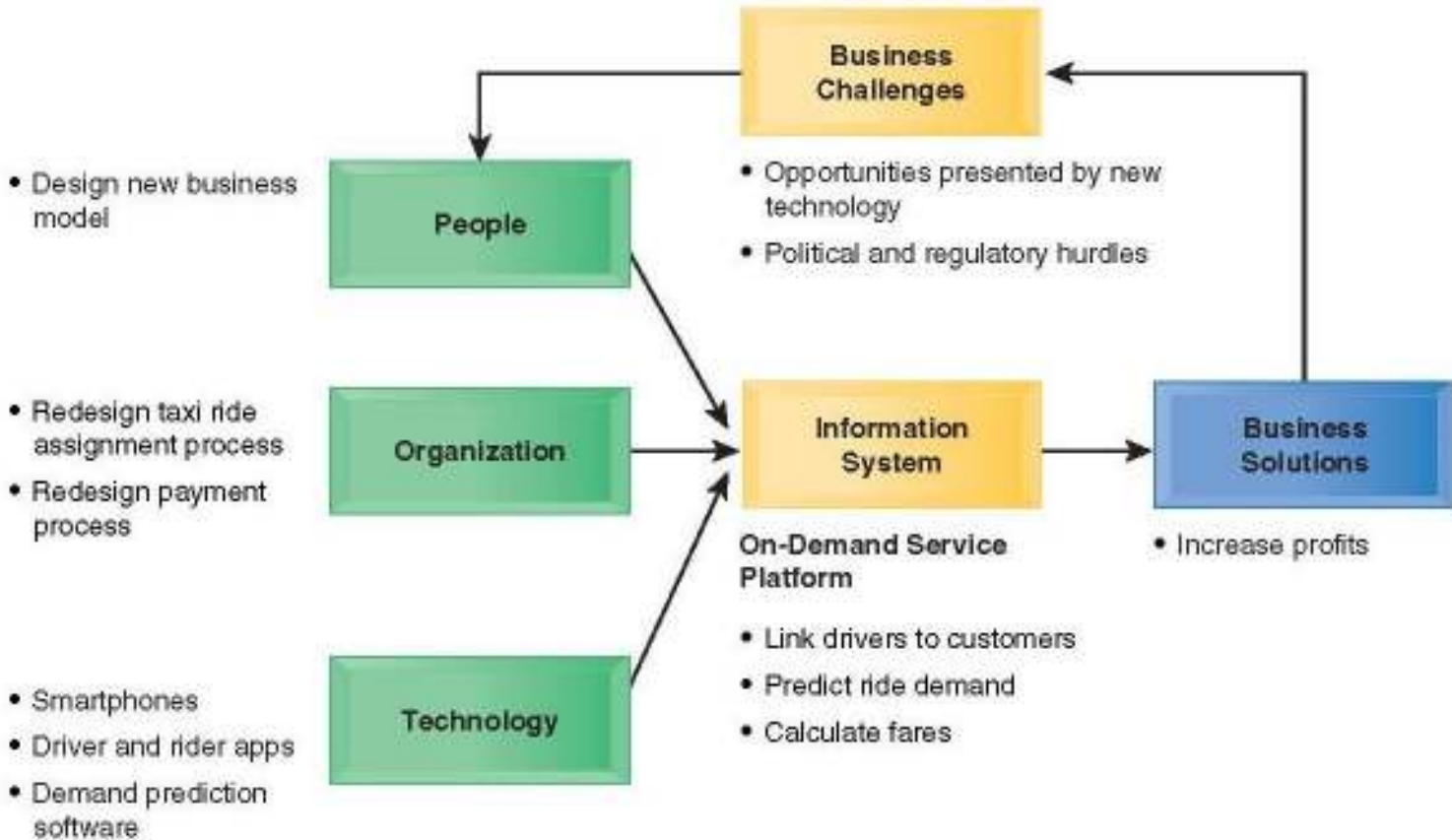
- **Implements an on-demand business model based on the smartphone platform**
- **Builds ride-hailing service based on driver and customer apps**
- **Builds centralized database of riders and customers**
- **Uses weather and history to predict demand for services**
- **Implements demand surge pricing**
- **Flouts laws and regulations**



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Uber Storms Europe: Europe Strikes Back





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What are the unique features of e-commerce, digital markets, and digital goods?

E-Commerce Today

- **E-commerce: use of the Internet and Web to transact business; digitally enabled transactions.**
- **Began in 1995 and grew exponentially; still stable even in a recession.**
- **Companies that survived the dot-com bubble burst now thrive.**
- **E-commerce revolution is still in its early stages.**

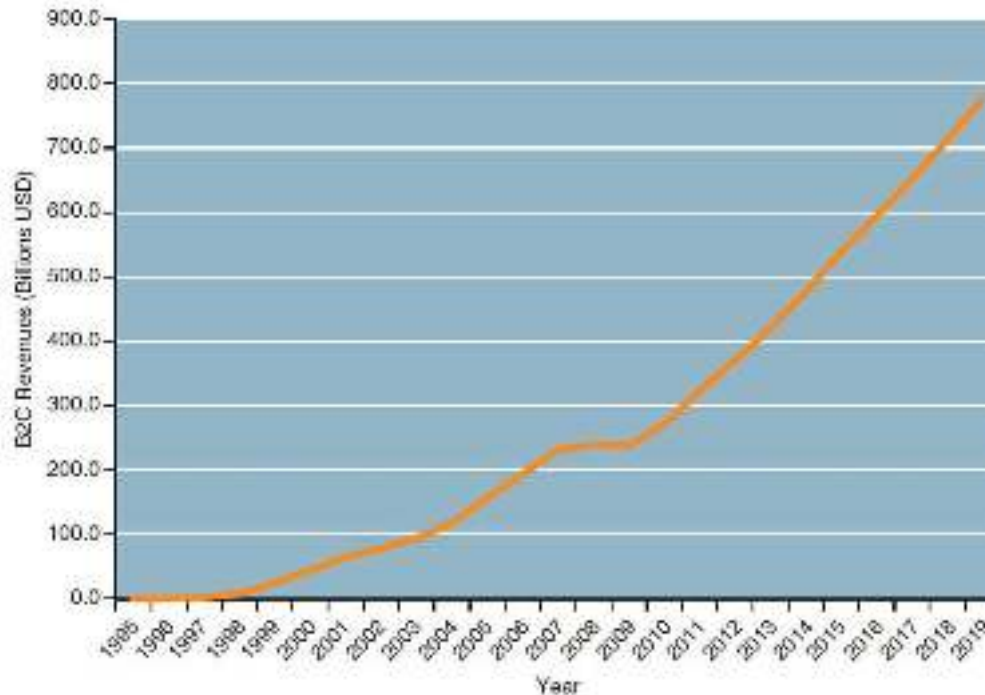


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What are the unique features of e-commerce, digital markets, and digital goods?

The Growth of E-Commerce



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Retail e-commerce revenues grew 15–25 percent per year until the recession of 2008–2009, when they slowed measurably. In 2015, e-commerce revenues are growing again at an estimated 15 percent annually, to a total of \$531 billion.

Figure 10-1



What are the unique features of e-commerce, digital markets, and digital goods?

The New E-commerce: Social, Mobile, Local

- **Original e-commerce marketing:**
 - Web sites
 - Display ads
 - Measures “eyeballs” and impressions of display ads
- **Social, mobile, local e-commerce marketing:**
 - Social media: Facebook, Twitter, Pinterest
 - Mobile, localized ads and apps, geo-location
 - Measures “conversations” and “engagement”



What are the unique features of e-commerce, digital markets, and digital goods?

Why E-Commerce Is Different

- **Ubiquity**
 - **Internet/Web technology available everywhere: work, home, and so on, anytime.**
 - **Effect:**
 - **Marketplace removed from temporal, geographic locations to become “marketspace”**
 - **Enhanced customer convenience and reduced shopping costs**



What are the unique features of e-commerce, digital markets, and digital goods?

Unique Features of E-commerce Technology

- **Global reach**
 - **The technology reaches across national boundaries, around Earth**
 - **Effect:**
 - **Commerce enabled across cultural and national boundaries seamlessly and without modification.**
 - **Marketspace includes, potentially, billions of consumers and millions of businesses worldwide.**



What are the unique features of e-commerce, digital markets, and digital goods?

Unique Features of E-commerce Technology

- **Universal standards**
 - **One set of technology standards: Internet standards**
 - **Effect:**
 - **Disparate computer systems easily communicate with one another.**
 - **Lower market entry costs—costs merchants must pay to bring goods to market.**
 - **Lower consumers' search costs—effort required to find suitable products.**



What are the unique features of e-commerce, digital markets, and digital goods?

Unique Features of E-commerce Technology

- **Richness**
 - **Supports video, audio, and text messages**
 - **Effect:**
 - **Possible to deliver rich messages with text, audio, and video simultaneously to large numbers of people.**
 - **Video, audio, and text marketing messages can be integrated into single marketing message and consumer experience.**



What are the unique features of e-commerce, digital markets, and digital goods?

Unique Features of E-commerce Technology

- **Interactivity**
 - The technology works through interaction with the user
 - **Effect:**
 - Consumers engaged in dialog that dynamically adjusts experience to the individual.
 - Consumer becomes co-participant in process of delivering goods to market.



What are the unique features of e-commerce, digital markets, and digital goods?

Unique Features of E-commerce Technology

- **Information density**
 - **Large increases in information density—the total amount and quality of information available to all market participants**
 - **Effect:**
 - **Greater price transparency**
 - **Greater cost transparency**
 - **Enables merchants to engage in price discrimination**



What are the unique features of e-commerce, digital markets, and digital goods?

Unique Features of E-commerce Technology

- **Personalization/Customization**
 - **Technology permits modification of messages, goods**
 - **Effect:**
 - **Personalized messages can be sent to individuals as well as groups.**
 - **Products and services can be customized to individual preferences.**



What are the unique features of e-commerce, digital markets, and digital goods?

Unique Features of E-commerce Technology

- **Social technology**
 - The technology promotes user content generation and social networking
 - **Effect:**
 - New Internet social and business models enable user content creation and distribution, and support social networks.
 - Many-to-many model



What are the unique features of e-commerce, digital markets, and digital goods?

Key Concepts : Digital Markets and Digital Goods

- **Digital market effects:**
 - Decreased **information asymmetry**
 - Reduced **search costs** and **transaction costs**
 - **Delayed gratification:** effects dependent on product
 - Reduced **menu costs**
 - Increased **dynamic pricing**
 - Increased **price discrimination**
 - Increased **market segmentation**
 - **Switching costs:** effects dependent on product
 - Stronger **network effects**
 - More **disintermediation**



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What are the unique features of e-commerce, digital markets, and digital goods?

The Benefits of Disintermediation to the Consumer

The typical distribution channel has several intermediary layers, each of which adds to the final cost of a product, such as a sweater. Removing layers lowers the final cost to the consumer.

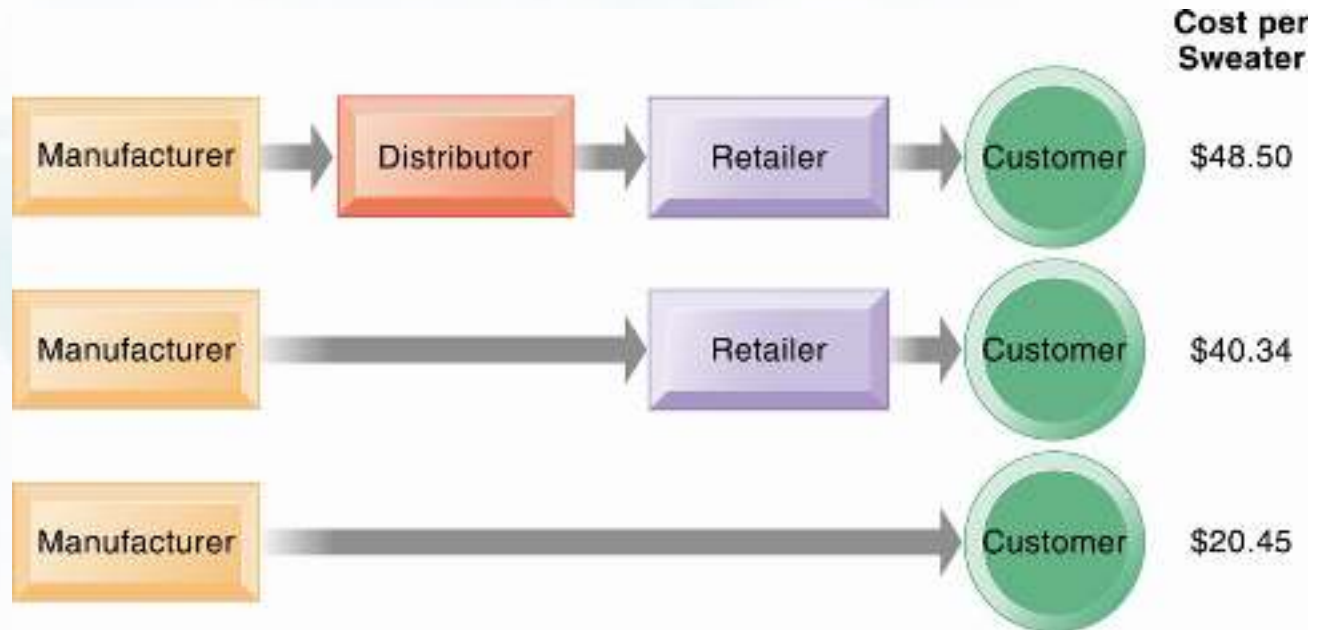


Figure 10.2



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Chapter 10 E-Commerce: Digital Markets, Digital Goods

What are the unique features of e-commerce, digital markets, and digital goods?

- **Digital goods**
 - **Goods that can be delivered over a digital network**
 - **E.g., music tracks, video, software, newspapers, books**
 - **Cost of producing first unit almost entire cost of product: marginal cost of producing 2nd unit is about zero**
 - **Costs of delivery over the Internet very low**
 - **Marketing costs remain the same; pricing highly variable**
 - **Industries with digital goods are undergoing revolutionary changes (publishers, record labels, etc.)**



What are the unique features of e-commerce, digital markets, and digital goods?

Types of E-commerce

- **Business-to-consumer (B2C)**
 - BarnesandNoble.com
- **Business-to-business (B2B)**
 - ChemConnect
- **Consumer-to-consumer (C2C)**
 - eBay



What are the principal e-commerce business and revenue models?

E-commerce Business Models

- **Portal**
- **E-tailer**
- **Content provider**
- **Transaction broker**
- **Market creator**
- **Service provider**
- **Community provider (social networks)**



What are the principal e-commerce business and revenue models?

E-commerce Revenue Models

- **Advertising**
- **Sales**
- **Subscription**
- **Free/Freemium**
- **Transaction fee**
- **Affiliate**



What are the principal e-commerce business and revenue models?

Social Networking and the Wisdom of Crowds

- **Social networks**
 - Fastest growing area of e-commerce revenues
 - Social shopping sites: Pinterest, Kaboodle, ThisNext
- **Wisdom of crowds**
- **Crowdsourcing**
 - Large numbers of people can make better decisions about topics and products than a single person.
- **Prediction markets**
 - Peer-to-peer betting markets on specific outcomes (elections, sales figures, designs for new products)



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What is the role of m-commerce in business, and what are the most important m-commerce applications?

M-Commerce

- **Represents 10% of all e-commerce**
- **Fastest growing form of e-commerce**
 - Especially popular in online travel industry
 - Main areas of growth:
 - Retail sales at top Mobile 400 companies
 - Amazon, Apple
 - Sales of digital content
 - Music, TV and movies

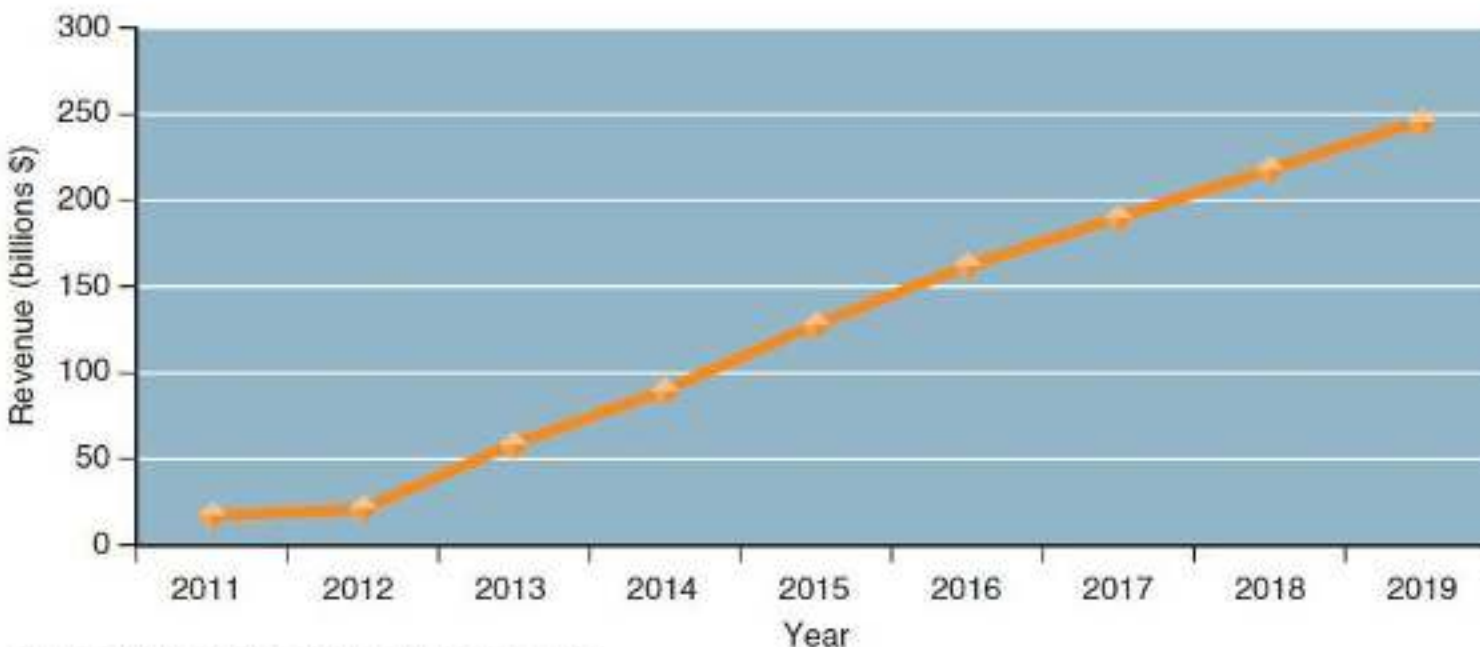


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What is the role of m-commerce in business, and what are the most important m-commerce applications?

Consolidated Mobile Commerce Revenues



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Figure 10.9 Mobile e-commerce is the fastest growing type of B2C e-commerce, representing about 20% of all e-commerce in 2015 (\$74 billion).



Can Instacart Deliver?

Interactive Session: Organizations **Can Instacart Deliver?**

- **Read the Interactive Session and then discuss the following questions:**
- **Analyze Instacart using the value chain and competitive forces models. What competitive forces does the company have to deal with? What is its value proposition?**
- **Explain how Instacart's business model works. How does the company generate revenue?**
- **What is the role of information technology in Instacart's business model?**
- **Is Instacart's model for selling online groceries viable? Why or why not?**



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What is the role of m-commerce in business, and what are the most important m-commerce applications?

- **Location-based services and applications**
 - **Geosocial services**
 - **Geoadvertising**
 - Economic foundation for m-commerce
 - **Geoinformation**
- **Other mobile commerce services**
 - Mobile banking
 - Mobile display advertising
 - Coupon services