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1

Online Retailing, Electronic Marketplaces and Electronic Collaboration

Craig Standing

The growth in electronic business with the rise of the internet has been nothing short of phenomenal. This has created unprecedented access to markets in the form of consumers and companies. The nature of the internet has enabled organisations to develop extended relationships with consumers and for organisations to further interact with their business partners, suppliers and other organisations. Electronic markets are characterised by the buying and selling of goods and services but, in addition, the internet has become a vehicle for electronic collaboration through electronic markets that exchange information and knowledge. These electronic markets are the theme for this book.

What are electronic markets?

Throughout the book, the terms electronic markets and electronic marketplaces are used interchangeably. Electronic markets are the activities associated with particular goods, services or knowledge. Electronic markets can be composed of a range of transaction mechanisms or modes of doing business. They can be local, national, regional or global. However, an electronic marketplace (sometimes referred to as exchanges, auctions and catalogue aggregators) can be defined as an interorganisational information system that allows the participating buyers and sellers in a market to exchange information about prices and product offerings (Bakos, 1997). In other words, they are more specific and identify a particular trading space. An electronic market is typically made up of many such marketplaces.

Markets and marketplaces and hierarchies

Electronic markets have a strong theoretical basis. The two mechanisms for conducting business activity are hierarchies and markets (Williamson, 1975). The term 'hierarchy' in this context refers to organisations that take on a hierarchical form through the procurement and selling of goods and services in the supply chain. Markets, on the other hand, are seen as horizontal. Markets are viewed as being more efficient from a transaction cost perspective. Transaction costs are the costs associated with finding someone with whom to do business, reaching an agreement about the price and other aspects of the exchange, and ensuring that the terms of the agreement are fulfilled. Electronic markets have the potential to streamline and manage these activities and reduce the transaction costs associated with conducting business compared with hierarchies where a company has to manage its suppliers and procurement processes. It has been noted, however, that market efficiencies may be related to certain types of non-recurrent transactions (Williamson, 1979) and some organisations develop closer relationships with their suppliers to obtain supply-chain efficiencies as a form of competitive advantage (Clemons et al., 1993).

Drivers of electronic markets

The benefits of electronic market participation include: improved efficiencies, cost savings, exposure to global markets, improved service, reduced communication costs, accelerated flow of news and information and improved market information. Electronic markets can also be used as knowledge-sharing networks with the potential for product and service innovation. The expectations of consumers have also changed. Web sites that provide a means for customers to interact directly with bricks and mortar companies have become an expectation and often the more the consumer can accomplish online the better the perception of service.

Globalisation

The internet has accelerated the process of globalisation. The concept of globalisation has given rise to a diversity of arguments. The arguments range from globalisation as solely an economic force to globalisation as a term to describe the changes on social, political, cultural as well as economic levels (Giddens, 1999). In its broadest sense, globalisation can be thought of as 'the widening, deepening and speeding up of

worldwide interconnectedness in all aspects of contemporary social life from the cultural to the criminal, the financial to the spiritual' (Held et al., 1999, p. 2). This interconnectedness can be seen in the increasing trend of companies to exploit international markets and procure internationally. Multinational companies have used the internet to integrate their organisations better and share knowledge both internally and with their alliance partners.

The key areas of electronic markets are:

1. Online retailing
2. Knowledge sharing and electronic collaboration
3. Electronic marketplaces and portals

Online retailing

Online retailing has gone from strength to strength. Although security issues are still a factor in adoption and use, consumers are increasingly turning to the internet, not only to make comparisons and find out information but also to make purchases. Despite the success of online retailing, the factors that enable a company to be successful online are still a topic of research. One of the main reasons for this because the internet has become crowded with companies offering similar products and services and it has become difficult for consumers to make comparisons. Companies often bundle products and services to make it difficult to compare on price alone. Developments in this area are also being driven by increasing consumer sophistication and expectations.

An organising framework for e-tailing strategies is presented by Florenthal and Shoham (Chapter 2) according to three levels of interaction based on product, process and partnership. The product level includes strategies of personalisation, customisation and pricing. The process level examines electronic agents that support customers in the online shopping experience. The partnership level focuses on strategies that develop long-term relationships with customers which result in loyalty, commitment and trust.

Noy and Dan-Gur focus specifically on recommender systems to enhance trust. Recommender systems generate and present recommendations on various items, locations, organisations and people. A multi-tiered design approach is presented that involves humans and software agents to overcome some of the limitations of existing designs.

The chapter by Swaid and Wigand examines the customer perspective of e-service quality. Most e-service evaluation instruments focus on the quality of the web site whereas Swaid and Wigand examine the

entire shopping experience. A range of factors influence the perception of e-service quality and include: web site usability, information quality, service reliability, responsiveness, assurance and personalization.

McElhone and Yacyshyn investigate the value of web sites for consumers where companies have established brick and mortar offerings. They found that consumers value information and product descriptions provided on these web sites. However, the web sites need to be well designed and provide a breadth of information that is continually being updated.

Knowledge sharing and electronic collaboration

The internet has enabled new ways of sharing knowledge and has created an electronic knowledge market. The many forums and technologies for collaborating are examples of knowledge marketplaces and although financial transactions are not central, there is an exchange of knowledge that takes place.

Parsian and Standing suggest that despite the breadth of research on knowledge management the issue of knowledge quality has not been properly examined. Knowledge quality is influenced by information quality and the value of knowledge can be determined by the type of knowledge, its scarcity and depreciation rate and its quality. They outline a method for building knowledge value into organisational systems.

Electronic clusters that collaborate and share knowledge are investigated by Cripps. This leading researcher on the topic asks the question 'why do some e-clusters work and others don't?' From her research she has found that issues related to secrecy, security and low levels of IT sophistication are substantial barriers to e-collaboration.

Electronic marketplaces and portals

Stockdale examines the importance of community and social networking as a feature of electronic marketplaces. Using a New Zealand example, the chapter explores how a sense of belonging and community values can contribute to a sustainable consumer-to-consumer entity.

An often overlooked area within electronic markets is the business-to-business (B2B) sector. This is where organisations trade with other organisations as part of buying and selling within the supply chain. Trading between companies reflects substantial markets and the role of e-marketplaces and electronic auctions should not be underestimated. Many firms find it difficult to assess the potential benefits, costs and risks of participation during the e-marketplace selection process and also during participation. It has been acknowledged that decisions in the B2B arena are usually more complex than in the business-to-consumer (B2C)

arena where decisions are more likely to be based on price and transaction costs. Trust, frequency of the transaction, complexity of the transaction, firm reputation, managerial skill, service, delivery scheduling and switching costs are some of the factors that make strategic decisions on firms' participation in B2B e-markets more difficult (Glassberg & Merhout, 2007). In an analysis of the adoption of an e-marketplace in the Australian beef industry it was found that social and political factors also played a significant role in determining levels of adoption (Driedonks et al., 2005). In particular, Driedonks et al., found loss of social capital, the nature of industry supply chain communication channels, and not recognising power brokers in the supply chain all had an impact on the adoption and success of the e-marketplace.

In addition to strategic decisions, firms have problems managing the tactical (Soh et al., 2006) and operational (Gengatharen & Standing, 2005) aspects of their participation in e-marketplaces. In B2B markets, sellers are often concerned about information transparency and, in particular, price transparency, since they fear this will reduce prices. Buyers are usually concerned about a lack of price transparency and if this is not available they typically require other compensatory benefits to participate (Soh et al., 2006). Price transparency is enabled by information technology (IT) mechanisms such as electronic catalogues with posted prices, electronic forward or reverse auctions or electronic price negotiation (Bichler et al., 2002). Firms also find pricing decisions for their products and services complex (Bergen et al., 2005). Although e-markets generally provide lower search costs than physical markets, decisions on competitive prices are confused by the tactics of sellers who may make frequent small price increases more often than small price decreases or can change their pricing in a random fashion so that it is difficult for buyers to determine their true prices (Oh & Lucas, 2006). Bakos et al., (2005) found that although the Internet promotes transparency in what can be termed the visible side of the market, for example commission rates, it can also make it more difficult for buyers to determine value for money. Oh & Lucas (2006) call for more qualitative research on the pricing tactics employed by managers in B2B e-marketplaces and their impact on sales volume and overall profitability because of the capabilities of interviews to uncover the complexity behind the decision making.

Connection to a B2B e-marketplace may involve a significant investment in hardware, software and employee training and this can impose significant switching costs for participants. In addition, buyers may be analysing sellers they have likely never dealt with before and information available in the electronic market may not reveal the size

of the firm or its reputation, thus increasing risk (Glassberg & Merhout, 2007). Research has shown that many organisations entering B2B e-marketplaces are passive members that rarely conduct transactions (Gengatharen & Standing, 2005). Active trading in e-marketplaces by participants has been shown to depend upon a range of factors such as the scope of the individual marketplace, the motivations of the participating buyers/sellers and the IT and information system (IS) capabilities of participants (Stockdale & Standing, 2006).

Standing and Standing examine the relationship between strategy and structure in electronic markets. In particular, e-marketplace structures create operating environments that engender particular power relations and economic conditions. The factors to be considered are economic, relational, service and community based.

Decisions related to electronic market participation are usually influenced by institutional structures. These are the behaviours, norms and values created by forces in the environment and within organisations. They lead to decisions being taken because of legitimating forces rather than rational cost-benefit decision making. Standing, Sims and Standing review the ways that institutional theory impacts on electronic markets and electronic marketplace adoption and use.

Governments worldwide have moved into the electronic market space. Gengatharen examines the success and failure of regional portals, particularly in relation to the implications for small and medium enterprises. Studies conducted by Gengatharen highlight the importance of trust between those involved for the eventual success of regional portals.

This book should serve as an excellent resource for those interested in electronic markets. The authors are all leading researchers in their respective fields and are based in Australia, United States, Canada, Spain, New Zealand and Israel. The examples and cases used are all highly relevant to the theme of the book. Although electronic markets are dynamically changing, the principles approach used by the authors will ensure the material stays current for many years to come. Happy reading!

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