

Chapter 7: Electronic markets

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Electronic
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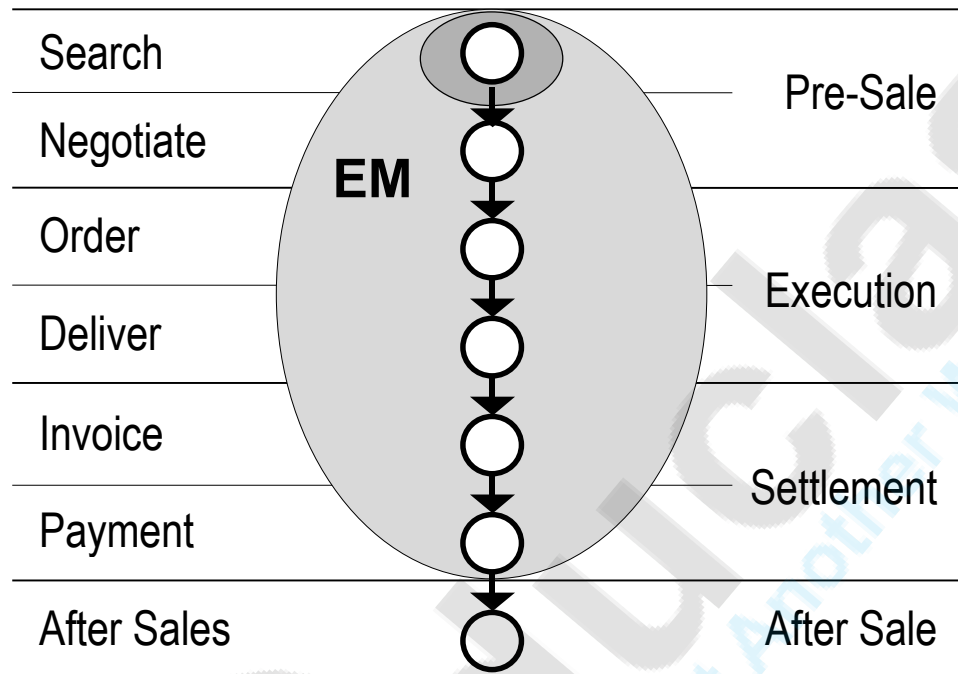
- ❖ Supply and Demand:
 - Supply outstrips demand – prices go down
 - Demand outstrips supply – prices go up

- ❖ Conditions for an effective market:
 - There are as many buyers as sellers and none of them dominates
 - The goods or services to be transacted are homogeneous or standardised
 - Buyers and sellers are well informed about the quantity, characteristics and price of the goods

Electronic market

- ❖ The use of information and communication technologies to provide geographically dispersed traders with the information necessary for the fair operation of the market.
- ❖ Easy access to information on a range of competing product offerings reduces the search cost of finding the supplier that best meets the purchase requirement.
- ❖ An electronic market place can be defined as: *'An inter-organisational information system that allows participating buyers and sellers to exchange information about price and product offerings'*.

Electronic markets and the trade cycle



- ❖ Emphasis is on the Search Phase
- ❖ Normally includes facilities for Execution and Settlement

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Usage of electronic markets

- ❖ Application has been limited to specific sectors:
 - Airline Booking Systems
 - Financial and Commodity Markets
- ❖ Use is typically via an intermediary

Advantages and disadvantages

- ❖ Customer Advantage:
 - Easy access to comparative price/service information
- ❖ Supplier:
 - Advantage of access to market
 - Disadvantage of easy price comparison
- ❖ *'The effect of an electronic market in a commodity market is the more efficient distribution of information which decreases the profit possibility for sellers. By the introduction of an electronic market search costs can be lowered. If buyers face lower search costs it will be more difficult for sellers to maintain high price levels.'*

(Bean, et al., 1995)

Future developments of electronic markets

❖ e-Procurement Systems:

- Internet based systems for procurement of 'non-production goods'
 - Checkout ariba.com

❖ Analogous systems:

- Online Travel Agents
- Shopbots
- Online Auctions