**Study Guide: E-Commerce: Digital Markets, Digital Goods**

1. How does the Internet change consumer and supplier relationships?

One clear change is that consumers can research products and services online and then make their purchases on the Internet. As the Internet increases the richness and range of information that is available, it shrinks information asymmetry.

The Internet is responsible for creating new business models and promoting customer-centered retailing, direct sales over the Web, interactive marketing and personalization, m-commerce, and customer self-service.

In today’s competitive environment, suppliers must increasingly offer consumers a variety of products and services offering mass customization and personalization without increased delivery times. However, delivery performance depends on many different factors, such as finished parts inventory levels and work-in-progress. Suppliers can track these factors inexpensively through the use of information systems.

The Internet changes information density available to consumers. Price transparency and cost transparency disrupt the typical relationship between suppliers and consumers, giving consumers more power to control prices. On the other hand, the Internet gives suppliers more price discrimination over consumers. Suppliers and consumers can deal with each other directly over the Internet and cause disintermediation for the traditional middleman.

List and describe the eight unique features of e-commerce.

* E-commerce technology is **ubiquitous**, meaning that it is available just about everywhere a computer can connect to the Internet.
* It has **global reach**, permitting commercial transactions to cross cultural and national boundaries far more conveniently and cost effectively than is true in traditional commerce.
* It operates according to **universal standards** shared by all nations around the world, whereas most traditional commerce technologies differ from one nation to the next.
* It provides information **richness**, enabling an online merchant to deliver to an audience of millions complex and rich marketing messages with text, video, and audio in a way not possible with traditional commerce technologies, such as radio, television, or magazines.
* It is **interactive**, meaning it allows for two-way communication between merchant and consumer and enables the merchant to engage a consumer in ways similar to a face-to-face experience but on a much more massive, global scale.
* It increases **information density** (the total amount and quality of information available to all market participants).
* It permits **personalization and customization**: Merchants can target their marketing messages to specific individuals by adjusting the message to a person’s name, interests, and past purchases.
* **Social technology** enables user content creation and distribution and supports social networks.

Define a digital market and digital goods and describe their distinguishing features.

Digital markets are said to be more “transparent” than traditional markets. The Internet has created a digital marketplace where millions of people are able to exchange massive amounts of information directly, instantly, and for free. Information asymmetry is reduced. Digital markets are very flexible and efficient, with reduced search and transaction costs, lower menu prices, and the ability to change prices dynamically based on market conditions. Digital markets provide many opportunities to sell directly to the consumer, bypassing intermediaries, such as distributors or retail outlets. Other features include delayed gratification, price discrimination, market segmentation, switching costs, and network effects.

Digital goods are goods that can be delivered over a digital network and include music, video, software, newspapers, magazines, and books. Once a digital product has been produced, the cost of delivering that product digitally is extremely low. New business models based on delivering digital goods are challenging bookstores, publishers, music labels, and film studios that depend on delivery of traditional goods.

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

Name and describe the principal e-commerce business models.

* **E-tailers** sell physical products directly to consumers or individual businesses.
* **Transaction brokers** save users money and time by processing online sale transactions and generates a fee each time.
* **Market creators** provide a digital environment where buyers and sellers meet, search for and display products, and establishes prices for those products; it can provide online auctions and reverse auctions.
* **Content providers** create revenue by providing digital content, such as digital news, music, photos, or video over the Web.
* **Community providers** provide an online meeting place where people with similar interests can communicate and find useful information.
* **Portals** provide an initial point of entry to the Web along with specialized content and other services.
* **Service providers** provide Web 2.0 applications such as photo sharing, video sharing, and user-generated content as services. Provides other services such as online data storage and backup.

Name and describe the e-commerce revenue models.

There are six e-commerce revenue models:

* **Advertising** revenue: Revenue is generated by attracting a large audience of visitors who can then be exposed to advertisements. It’s the most widely used revenue model in e-commerce.
* **Sales** revenue: Companies derive revenue by selling goods, information, or services to customers.
* **Subscription** revenue: A Web site offering content or services charges a subscription fee for access to some or all of its offerings on an ongoing basis.
* **Free/fremium** revenue: Basic services or content are free while advanced or special features cost extra.
* **Transaction fee** revenue: A company receives a fee for enabling or executing a transaction.
* **Affiliate** revenue: Sites that steer customers to an affiliate business receive a referral fee or percentage of the revenue from any resulting sales.

1. How has e-commerce transformed marketing?

Explain how social networking and the “wisdom of crowds” help companies improve their marketing.

Networking sites sell banner, video, and text ads; user preference information to marketers; and products such as music, videos, and e-books. Corporations set up their own social networking profiles to interact with potential customers and “listen” to what social networkers are saying about their products, and obtain valuable feedback from consumers. At user-generated content sites, high-quality video content is used to display advertising. Online communities are ideal venues to employ viral marketing techniques.

Creating sites where thousands, even millions, of people can interact offers business firms new ways to market and advertise products and services, and to discover who likes or dislikes their products. In a phenomenon called “the wisdom of crowds” some argue that large numbers of people can make better decisions about a wide range of topics or products than a single person or even a small committee of experts. In marketing, the wisdom of crowds concept suggests that firms should consult with thousands of their customers first as a way of establishing a relationship with them, and second, to better understand how their products and services are used and appreciated. Actively soliciting customer comments builds trust and sends the message to customers that the company cares what they are thinking and that customer advice is valuable.

Define behavioral targeting and explain how it works at individual Web sites and on advertising networks.

Behavioral targeting refers to tracking the click-streams of individuals for the purpose of understanding their interests and intentions, and exposing them to advertisements which are uniquely suited to their behavior. Ultimately, this more precise understanding of the customer leads to more efficient marketing and larger sales and revenues. Behavioral targeting of millions of Web users also leads to the invasion of personal privacy without user consent.

Behavioral targeting takes place at two levels: at individual Web sites and on various advertising networks that track users across thousands of Web sites. Most e-commerce Web sites collect data on visitor browser activity and store it in a database. They have tools to record the site that users visited prior to coming to the Web site, where these users go when they leave that site, the type of operating system they use, browser information, and even some location data. They also record the specific pages visited on the particular site, the time spent on each page of the site, the types of pages visited, and what the visitors purchased. Firms analyze this information about customer interests and behavior to develop precise profiles of existing and potential customers.

**Collaborative filtering** tools compare consumer behavior and interests to make purchasing recommendations. Netflix and Amazon are examples of companies that use collaborative filtering techniques.

Explain how Internet technology supports business-to-business (B2B) electronic commerce.

Business-to-business transactions can occur via a company Web site, net marketplace, or private exchange. Web sites make it easy to sell and buy direct and indirect goods over the Internet, compare suppliers, products, and prices, and even find out how others feel about the product. Further, supply chain linkages through intranets and extranets can support JIT, reduce cycle times, and other practices of continuous improvement. Because of the ease and efficiencies brought by the Internet, business-to-business participants can save a significant amount of money and time.

Define and describe Net marketplaces and explain how they differ from private industrial networks (private exchanges)?

A net marketplace is a single digital marketplace based on Internet technology linking many buyers to many sellers. The net marketplace is an important business model for B2B e-commerce; some net marketplaces serve vertical markets for specific industries and other net marketplaces serve horizontal markets, selling goods that are available in many different industries. Also, net marketplaces can sell either direct goods or indirect goods. Net marketplaces are more transaction-oriented and less relationship-oriented than private industrial networks.

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

List and describe important types of m-commerce services and applications.

The most popular categories of m-commerce services and applications for mobile computing include:

* Location-based services: Users are able to locate restaurants, gasoline stations, local entertainment, or call a cab.
* Banking and financial services: Users can manage their bank accounts, check account balances, transfer funds, and pay bills using their cell phones.
* Wireless advertising: Cell phones provide another avenue for advertisers to reach potential customers. Cell phone service providers can sell advertising on phones.
* Games and entertainment: Users can download video clips, news clips, weather reports, live TV programs, and short films designed to play on mobile phones.
* Personalized services: Based on that person’s location or data profile, services anticipate what a customer wants such as updated airline flight information or beaming coupons for nearby restaurants.