**CHAPTER THREE**

**THE E-MARKETPLACES STRUCTURES AND MECHANISMS**

**3.1 Introduction to Electronic Markets**

According to Bakos (1998), electronic markets play a central role in the economy, facilitating the exchange of information, goods, services, and payments. ln the process, they create economic value for buyers, sellers, market intermediaries, and for society at large. Markets (electronic or otherwise) have three main functions: (1) matching buyers and sellers; (2) facilitating the exchange of information, goods, services, and payments associated with market transactions; and (3) providing an institutional infrastructure, such as a legal and regulatory framework that enables the efficient functioning of the market.

**Electronic Markets**

The major place for conducting EC transactions is the electronic market (e—market). An E-marketplace is an Online market, usually B2B, in which buyers and sellers exchange goods or services; the three types of e-market places are private, public and consortia.

The emergence of electronic marketplaces (also called e-marketplaces or marketspaces), especially internet—based ones, changed several of the processes used in trading and supply chains, These changes, driven by technology resulted in:

 Greater information richness of the transactional and relational environment

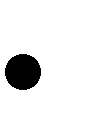
 Lower information search costs for buyers

 Diminished information asymmetry between sellers and buyers

 Greater temporal separation between time of purchase and time of possession of physical products purchased in the e-marketplace

 Greater temporal proximity between time of purchase and time of possession of digital products purchased in the e-marketplace

The ability of buyers and sellers to be in different locations.



**3.2 E-Marketplace Components and Participants**

A marketspace includes electronic transactions that bring about a new distribution of goods and services. The major components and players in a marketspace are customers, sellers, goods and services (physical or digital), infrastructure, a front end, a back end, intermediaries and other business partners, and support services. A brief description of each follows:

 **Customers** - The 1.6 billion people worldwide who surf the Web are potential buyers of the goods and services offered or advertised on the Internet. These consumers are looking for bargains, customized items, collectors’ items, entertainment, socialization, and more. They are in the driver’s seat. They can search for detailed information, compare, bid, and sometimes negotiate. Organizations are the largest consumers, accounting for more than 85 percent of EC activities.

 **Sellers** - Millions of storefronts are on the Web, advertising and offering a huge variety of items. These stores are owned by companies, government agencies, or individuals. Every day it is possible to find new offerings of products and services. Sellers can sell direct from their Web sites or from e—marketplaces.

 **Products and services** - One of the major differences between the marketplace and the marketspace is the possible digitization of products and services in a marketspace. Although both types of markets can sell physical products, the marketspace also can sell digital products, which are goods that can be transformed to digital format and Instantly delivered over the Internet. In addition to digitization of software and music, it is possible to digitize dozens of other products and services.

 **Infrastructure** - The marketspace infrastructure includes electronic networks, hardware, software, and more. (EC infrastructure is presented in Chapter 1.

 **Front end** - Customers interact with a marketspace via a frontend. The components of the front end can include the sellers portal, electronic catalogs, a shopping cart, a search j engine, an auction engine, and a payment gateway.

 **Back end** - All the activities that are related to order aggregation and fulfillment, inventory management, purchasing from suppliers, accounting and finance,

insurance, payment processing, packaging, and delivery are done in what is termed the back end of the business.

 **Intermediaries** - In marketing, an Intermediary is typically a third party that operates between sellers and buyers. Intermediaries of all kinds offer their services on the Web. The role of these electronic intermediaries is frequently different from that of regular intermediaries (such as wholesalers). For example, online intermediaries create and manage the online markets. They help match buyers and sellers, provide some infrastructure services, and help customers and/or sellers to institute and complete transactions.

 **Other business partners** - In addition to intermediaries, several types of partners, such as shippers, use the Internet to collaborate, mostly along the supply chain.

 **Support services** - Many different support services are available, ranging from certification and escrow services (to ensure security) to content providers.

**Types Of E-Marketplaces: From Storefronts To Portals**

There are several types of e—marketplaces. The major B2C e—marketplaces are storefronts and Internet malls. B2B e—marketplaces include private sell—side e- marketplaces, buy—side marketplaces, and exchanges. A brief description of each follows:

**Electronic Storefronts** - An electronic or Web storefront refers to a single company’s Web site where products and services are sold. It is an electronic store. The storefront may belong to a manufacturer (e. g. dell.com), to a retailer (e.g., walmart.com and wishlist.com.au), to individuals selling from home, or to another type of business. Note that companies that sell services (such as insurance) may refer to their storefronts as portals. A storefront includes several mechanisms that are necessary for conducting the sale. The most common mechanisms are an electronic catalog; a search engine that helps the consumer find products in the catalog; an electronic cart for holding items until checkout.

**Electronic Malls** - In addition to shopping at individual storefronts, consumers can shop in electronic malls . (e—malls). Similar to malls in the physical world, an e— mall (online mall) is an online shopping e-location where many stores are located. For example, Hawaiicom (hawaii.com) is an e-mall that aggregates Hawaiian products and stores. It contains a directory of product categories and the stores in each category When a consumer indicates the category he or she is interested in, on the consumer is transferred to the appropriate independent storefront. This kind of

a mall does not provide any shared services. It is merely a directory Other malls do provide shared services (e.g., choicemall.com). Some malls are actually large click- and-mortar retailers; others are virtual retailers (e.g., buycom).

**Types Of Stores And Malls -** Stores and malls are of several different types:

**General stores/malls**. These are large marketspaces that sell all types of products.

Examples are amazon.com, choicemall.com, shop4.vcomshop.com, spree.com, and the major public portals (yaho0.com, aol.com, and msn.com). All major department and discount stores also fall into this category.

**Specialized stores/malls.** These sell only one or a few types of products, such as books, flowers, wine, cars, or pet toys. Amazon.com started as a specialized e—bookstore but today is a generalized store. 1800flowers.c0m sells flowers and related gifts; fashionmall.com/beautyjungle specializes in beauty products, tips, and trends; and

cattoys.com sells cat toys.

**Regional versus global stores.** Some stores, such as e—grocers or sellers of heavy furniture, serve customers that live nearby For example, parknshop.com serves the Hong kong community; it will not deliver groceries to new York.

**Pure-**play online organizations versus click-and-mortar stores. Stores may be pure online organizations such as Amazon.com, that do not have physical stores. Others are physical stores that also sell online

Types of Marketplaces

The two types of E-Marketplaces are;

**Private marketplaces** which are online markets owned by a single company; may be either sell-side and/or buy-side e-marketplaces. A Sell-side marketplace is where one company sells either standard and/or customized products to qualified companies. The buy-side e-marketplace is where one company makes purchases from invited suppliers.

**Public E–Marketplaces** – are B2B markets usually owned and/or managed by an independent third party, that include many sellers and many buyers; also known as exchanges.

**3.3 Electronic Auctions**

The electronic auctions also called **online auction business model** is one in which participants bid fo[r products a](http://en.wikipedia.org/wiki/Product_(business))[nd services over](http://en.wikipedia.org/wiki/Service_(economics)) the [Internet.](http://en.wikipedia.org/wiki/Internet) The functionality of buying and selling in a[n auction form](http://en.wikipedia.org/wiki/Auction)at is made possible through [auction software which](http://en.wikipedia.org/wiki/Auction_software) regulates the various processes involved.

Several types of online auctions are possible. In an [English auction t](http://en.wikipedia.org/wiki/English_auction)he initial price starts low and is bid up by successive bidders. In a [Dutch auction,](http://en.wikipedia.org/wiki/Dutch_auction) multiple identical items are offered in one auction, with all winning bidders paying the same price -- the highest price at which all items will be sold ([treasury bills,](http://en.wikipedia.org/wiki/Treasury_bills) for example, are auctioned this way). Currently almost all online auctions use the English auction method. Aexample of a popular site that conducts electronic auctions is ebay.com. The kind of business is B2B, B2C, C2B etc.

The strategic advantages of this [business model inc](http://en.wikipedia.org/wiki/Business_model)lude:

1. **No time constraints**. Bids can be placed at any time ([24/7).](http://en.wikipedia.org/wiki/24/7) Items are listed for a number of days (usually between 1 and 10, at the discretion of the seller), giving purchasers time to search, decide, and bid. This convenience increases the number of bidders.

2. **No geographical constraints**. Sellers and bidders can participate from anywhere that has internet access. This makes them more accessible and reduces the cost of "attending" an auction. This increases the number of listed items (ie.: number of sellers) and the number of bids for each item (e.g.:

number of bidders). The items do not need to be shipped to a central location,

reducing costs, and reducing the seller's [minimum acceptable price.](http://en.wikipedia.org/wiki/Ask_price)

3. **Intensity of social interactions**. The social interactions involved in the bidding process are very similar to gambling. The bidders wait in anticipation hoping they will "win." Much like [gambling addiction,](http://en.wikipedia.org/wiki/Compulsive_gambling) some bidders may bid primarily to "play the game" rather than to obtain products or services. This creates a highly loyal customer segment. This can also skew the prices of items/services/goods in the auction.

4. **Large number of bidders**. Because of the potential for a relatively low price, the broad scope of products and services available, the ease of access, and the social benefits of the auction process, there are a large number of bidders.

5. **Large number of sellers**. Because of the large number of bidders, the potential for a relatively high price, reduced selling costs, and ease of access, there are a large number of sellers.

6. **Network economies**. The large number of bidders will encourage more sellers, which, in turn, will encourage more bidders, which will encourage more sellers, etc., in a virtuous circle. The more the circle operates, the larger the system becomes, and the more valuable the business model becomes for all participants.

7. **Captures consumers' surplus**. Auctions are a form of first degree [price discrimination.](http://en.wikipedia.org/wiki/Price_discrimination) As such, they attempt to convert part of the [consumers' surplus](http://en.wikipedia.org/wiki/Consumer_surplus) (defined as the area above the market price line but below the firm's demand curve) into [producers' surplus.](http://en.wikipedia.org/wiki/Profit_(economics))

**3.4 Information Portals**

A portal is a mechanism that is used in e—marketplaces, e-stores, and other types of EC (eg., in lntrabusiness, e-learning, etc.). An information portal is a single point of access through a web browser to business information inside and/or outside an organization. With the growing use of intranets and the Internet, many organizations encounter information overload at a number of different levels. Information is scattered across numerous documents, e—mail messages, and databases at different locations and in disparate systems. Finding relevant and accurate information is often time consuming and requires access to multiple systems.

As a consequence, organizations lose 2 lot of productive employee time. One solution to this problem is the use ofparta/s. A portal is an information gateway it attempts to address information overload by enabling people to search and access relevant information from disparate IT systems and the Internet, using advanced search and indexing techniques (such as Google’s desktop), in an intranet-based environment.

**Types of Portals**

Portals appear under many descriptions and shapes. One way to distinguish among them is to look at their content, which can vary from narrow to broad, and their community or audience, which also can vary The following are the major types of portals:

**Commercial (public) portals.** These portals offer content for diverse communities and are the most popular: portals on the Internet. Although they can be customized by the uses.; they are still intended for broad audiences and offer fairly routine content, some in real time {eg., a stock ticker and news about a few reselected items). Examples of such sites are yahoo.com, aol.com, and msn.com.

**Corporate portals.** Corporate portals provide organized access to rich content within relatively narrow corporate and partners’ communities. They also are known as enterprise information portals or enterprise information portals. Corporate portals appear in different forms.

**Publishing portals.** These portals are intended for communities with specific interests. These portals involve relatively little customization of content, but they provide extensive online search features and some interactive capabilities. Examples of such sites are techweb.com and zdnet.com.

**Personal portals.** These target specific filtered information for individuals. They offer relatively narrow content and are typically very personalized, effectively having an audience of one.

**Mobile portals.** Mobile portals are portals that are accessible from mobile although most of the other portals mentioned here are PC based, increasing numbers of portals are accessible via mobile devices. One example of such at mobile portal is i—mode.

**Voice portals**. Voice portals are Web sites, usually portals, with audio interfaces. This means that they can be accessed by a standard telephone or a cell phone.

**Knowledge portals** – Knowledge portals enable access to knowledge by knowledge workers and enable collaboration.

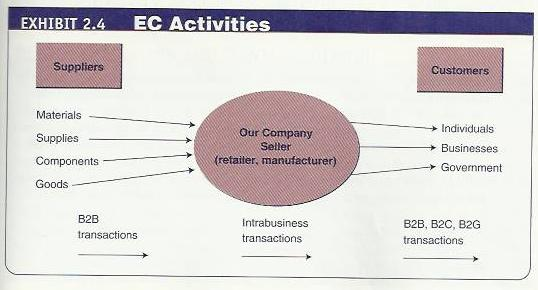
**3.5 Transactions, intermediation, and processes in E-commerce**

**Sellers, buyers and Transactions**

Te major EC activity is electronic trading. Typically, a seller sells to customers. The seller buys from suppliers: either raw materials or finished goods. Internally, processes in the different functional areas are supported by enterprise software such as ERP and B2E activities. The customers can be individuals (B2C), businesses (B2B), or from government agencies (B2G). The customers place orders, and the seller fulfils them.

**The roles and value of intermediaries in E-Marketplaces**

Intermediaries(Brokers) play an important role in commerce by providing value-added activities and services to buyers and sellers. There are different types of intermediaries. The intermediaries that provide and/or control information flow are called infomediaries.



Online intermediaries are companies that facilitate transactions between buyers and sellers and receive a percentage of the value.

The two types of online intermediaries are brokers and infomediaries.

**Brokers**

A broker is a company that facilitates transactions between buyers and sellers. The following are different types of brokers:

 Buy/sell fulfillment. A corporation that helps consumers place buy and sell orders

(eg., eTrade).

 Virtual mall. A company that helps consumers buy from a variety of stores (eg., ahoo! Stores).

 Metamediary. A firm that offers customers access to a variety of stores and provides them with transaction services, such as financial services (e. g., Amazon zShops).

 Bounty. An intermediary that will locate a person, place, or idea for a fee (e.g., BountyQuest (now defunct).

 Search agent. A company that helps consumers compare different stores

(eg.,Shopping.com).

 Shopping facilitator. A company that helps consumers use online shops by providing currency conversion, language translation, payment features, and delivery solutions, and potentially a user-customized interface, (eg., MyOrbital.com).

Infomediaries

Web sites that gather and organize large amounts of data and act as intermediaries between those who want the information and those who supply the information are called intermediaries (Webopedia 2006). There are two types of infomediaries:

 The first type offers consumers a place to gather information about specific products and companies before they make purchasing decisions. lt is a third— party provider of unbiased information; it does not promote or try to sell specific products in preference over other products or act on behalf of any vendors (e. g., Autobytel.com and BizRate.com).

 The second type is not necessarily Web—based. It provides vendors with consumer information that will help the vendor develop and market products. The infomediary collects the personal information from the buyers and markets that data to businesses. The advantage of this approach is that consumer privacy is protected and some infomediaries offer consumers a percentage of the brokerage deals.

Intermediaries whether human or electronic, can address the following ficve limitations of direct intermediaries: Search costs, Lack of privacy, Incomplete information, contract risk and pricing inefficiencies.