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ROBERT H. SMITH
SCHOOL OF BUSINESS
Leaders for the Digital Economy

Online Consumer Behavior and Its Implications for Firm's Strategies

Dr. Siva Viswanathan

Over the last few decades, developments in information technologies have dramatically increased the amount of information available to consumers. The Web has emerged as the primary source of information for consumers in various product categories, and in industries as diverse as auto-retailing, brokerages, real-estate, mortgages, and insurance, among others. Most of this information is provided by third-party online information intermediaries (or infomediaries), who have not only established themselves as pivotal and trustworthy sources of information, but also led to the creation of new linkages with the potential to disrupt, and fundamentally change the dynamics of traditional business. The growth of online infomediaries has given rise to new and interesting information seeking behaviors, which has only recently begun to garner the attention of researchers. As consumers increasingly begin to rely on online infomediaries as their primary source of information, these online intermediaries provide traditional firms new avenues for segmenting consumers and formulating strategies based on their online behaviors.

Estimated at around a trillion dollars a year, auto-retailing is the biggest retailing sector in the US. While there are over 22,600 new car

dealerships, the market is mostly fragmented and sales largely localized. In addition, the presence of franchise laws has helped strengthen the position of dealers in the retail value chain. Added to the lack of transparency in the pricing and purchase process, significant differences exist among cars in terms of performance and features as well as in the pricing strategies of dealers—making the car buying process a complex decision for most consumers. However, over the last few years, the advent of the Web, has led to the rapid growth of several online intermediaries (Online Buying Services) that have emerged to improve overall market efficiency through better information availability. These OBS (Online Buying Services) such as Autobytel, Edmunds.com, Cars.com, not only serve as infomediaries providing information on various facets of the purchase, but also act a referral intermediaries by referring consumers to dealers.

As in other sectors, these online infomediaries typically provide price and product comparison information, enabling consumers to find the right product and negotiate better prices with dealers. Prior studies examining the implications of the increased availability of such information have typically found that the increased availability of price information leads to lower average prices in the market,

resulting from greater price competition among sellers. In addition to price information given the heterogeneity of consumer preferences – the high involvement nature of the purchase and the high degree of differentiation among cars, product-related information is also very valuable to consumers, enabling them find products that better match their preferences. While the increased availability of price-related information to consumers leads to lower prices, the increased availability of product-related information is thought to decrease consumers' price sensitivities and lead to higher prices on an average. Our study begins by examining whether these differential impacts of price and product information availability on outcomes are indeed borne out in the market for new cars.

Our findings also have interesting implications for dealers' partnerships with online infomediaries.

For more details and key findings of Dr. Siva Viswanathan's research, visit:

http://www.isb.edu/isbinsight/Insight_Sep07/contents.html

or send email to sviswana@rhsmith.umd.edu





When 7 Milliseconds Isn't Fast Enough

Dr. Joseph Bailey

On April 27, 2007 CEME hosted the Seventh Annual Netcentricity Conference in Van Munching Hall. Chaired by professors Hank Lucas and Alex Triantis, the theme of this year's conference was "The Transformation of Financial Markets." Throughout the day, business and academic leaders had an opportunity to discuss how financial markets have been—and continue to be—shaped by technological change. A recurring theme of the event is the incredible rate of change in financial markets.

The keynote speaker of the event, Samuel Gaer, Executive Vice President and Chief Information Officer of the New York Mercantile Exchange (NYMEX), described many of the transformations that have taken place in the increasingly global and electronic financial markets. One observation that got the attention of the participants was the emphasis on fast-trade execution. With the increase of algorithmic trading, even seven milliseconds might be too long to wait for an opportunity in financial markets.

Seven milliseconds is the time it takes for a bit of information to travel at the speed of light between New York and Chicago. Although advanced information technology has removed order execution delays elsewhere in electronic financial markets, the seven milliseconds is a problem that cannot be overcome by IT advances. That is why NYMEX and other financial institutions are looking to co-locate their computers in the same location. For example, if NYMEX's computer is in the same facility with the Chicago Mercantile Exchange they can avoid the seven millisecond delay. Elimination of this delay may mean better trade execution and even the exploration of opportunities where the window is only seven milliseconds long.

This is especially true when algorithmic trading increasingly participates in electronic financial markets. According to recent estimates, most transactions on the London Stock Exchange involve algorithmic trading.

Algorithmic trading—initiation of a financial market transaction from a computer and not a human—increasingly accounts for trade volume in financial markets. Computers use their significant processing power to analyze timely market information, find market opportunities based on preprogrammed algorithms, and then submit buy/sell orders depending upon the type of opportunity. In this way, computers can find dislocations in the market (such as arbitrage opportunities) and make money in less time than it takes a human to even gather information. Speed matters in algorithmic trading where computers vie with each other to find opportunities. Being just a few milliseconds faster than the competition can be the difference between winning and losing.

So, what does the future hold? First, conference presenters and participants alike are confident that information technology will play an ever-increasing role in the transformation of financial and other electronic markets. Second, the transformation that has already taken place in financial markets may become an example for transformations in other electronic markets. With electronic markets being increasingly used to buy and sell information goods, the transformation seems inevitable. Perhaps seven milliseconds will not be fast enough for these markets either. (Folks, you might want to fasten your seatbelts...)

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Oil and eCommerce

by Anne Zeeman

What impact will higher oil prices have on ecommerce sales this holiday season? It will probably increase them. Instead of personally delivering gifts to friends and relatives this holiday season, people may opt to use ecommerce retailing to ship presents to their loved ones. Higher oil prices translate into higher airfares and car travel. So instead of packing presents in the car or the overhead compartment, gift-givers may just go online and let the ecommerce and shipping companies bare the extra expense. Higher oil prices could also lessen the amount of trips consumers make to the traditional brick and mortar stores and increase ecommerce sales this holiday season. Gift-givers who want to avoid the local holiday shopping excursion may also turn to Internet retailers.

This growing shift to ecommerce holiday shopping should mean another record year for Internet retailers. They have continually used growing Internet sales to increase their product offerings. Healthy ecommerce sales numbers are favorable to customers as well. Increased ecommerce competition will likely translate into lower prices. This is good news for shoppers who want to buy the perfect gift at the best possible price.

So, brace yourselves for the "free shipping" promotions blitz from the Internet retailers and the longer "click to door" order times this holiday season. What is the best news about gaining ecommerce popularity due to higher oil prices? There should be less traffic on the road, shorter lines at the store, and maybe there will actually be an available parking spot within a mile of the shopping mall. Let's hope so.



The Center for Electronic Markets and Enterprises

4363 Van Munching Hall
College Park, MD 20742
Telephone: (301) 405-2206
Fax Number: (301) 405-8655

