


Value Network View on Digital Marketplace

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INTRODUCTION

The advancement of the Internet has transformed the way people conduct businesses all over the world. Customers nowadays are equipped with smart mobile devices that can access information about products and services over the Internet easily. Similarly, firms can reach their customers directly through the Internet. Hence, this may cut intermediaries and potentially offer their customers cheaper prices. At the same time, they can engage their customers interactively through the available and specially designed social media. Many new business models have emerged that created disruption to traditional business models, for examples, mobile-based ride-hailing and ride sharing such as Uber, online travel or accommodation agencies such as Travelocity and Trivago, and peer-to-peer rentals such as Airbnb to name a few.

Incorporating the Internet in business is highly influenced by the digitation of business and business transactions, which is divided into three dimensions, (i) product/service digitation, (ii) process digitation and (iii) delivery digitation. Digitations create immense impact in businesses and have created new and innovative business models. For example, both Uber and Airbnb rely on digitation of process as both product/service and delivery cannot be digitized. However, with the digitation of process, they facilitate and manage transactions between supply and demand and create much more efficient business models as compared to the traditional counterparts.

One of the greatest impacts from the digitation of process is the creation of digital marketplaces as it creates immense impact on how supply and demand meet and transact. Digital marketplaces increase effectiveness and efficiency of market functions and significantly lower transactions costs. Essentially, there are three functions of a market, (i) matching buyers and sellers, (ii) facilitating of transactions, and (iii) providing institutional infrastructure (Bakos, 1998). In general, digital marketplaces are firms that offer these market functions digitally in two-sided or multi-sided markets. For examples, Airbnb offers a marketplace accommodation for owners and travelers (two-sided markets) and Uber offers a marketplace for drivers, food outlets and others with their customers (multi-side markets). A two-sided (in general multi-sided) markets is an intermediary or a platform that facilitates or enables collaboration between two sides, producers or sellers and consumers or buyers, to interact and transact (King, 2013; Parker & Van Alstyne, 2005; Rochet & Tirole, 2006). A digital marketplace is a kind of two-sided market that provides digital interactions and transactions to run market functions between both side markets. Literature on two-sided markets has also discussed how a platform creates a price structure which attracts both sides of the market to transact (Armstrong, 2006; Roson, 2005; Rysman, 2009).

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A platform offers values to both sides to stay in business. Stabell and Fjeldstad (1998) extends Porter's value chain concept (Porter, 1985) into three generic value configurations – value chain, value shop and value network. A platform applies value network as it mediates all sides in multi-sided markets. It provides a networking service or basically providing market functions to facilitate exchange between customers.

The next chapter discusses network externalities, two-sided markets, and value network theories and how these theories can be applied to view digital marketplace firms in setting their expansion strategies. Some digital marketplace business models will also be discussed. Future direction and conclusion will be presented in the last part of this chapter.

BACKGROUND

The advancement of information and communication technology (ICT), especially the Internet, has created a new way of conducting business and business transactions. E-business and e-commerce have been globally adopted and expanding in various sectors.

Globally the size of e-commerce market is growing steadily. For example, retail e-commerce is growing 20.9% yearly. Retail e-commerce was US \$2.3 trillion in 2017 and is expected to reach US \$4.88 trillion in 2021, and one of the most popular activities on the Internet is on-line shopping (Statistica, n.d.).

The Internet has given the opportunity for firms to reach their customers directly, offering direct sales to customers with cheaper prices; interacting with customers and providing them better customer services; providing mass customization and personalization to suit customers' need.

Although customers can find products and services that they need faster through the Internet, with so many firms offering similar products or services, finding the firm that offers suitable products or services directly from the Internet could be time consuming. Similarly, for firms, they may have difficulties to reach their potential customers through the Internet as they cannot easily target the right customers. Digital marketplaces on the Internet help provide the necessary functions for firms or suppliers to meet their customers and facilitate them to transact.

Digital marketplaces are developed along with the development of the Internet. Among early digital marketplaces is eBay. It was founded by Pierre Omidyar in September 1995 and designed to be a digital marketplace to help individuals transact goods and services easily and conveniently (Hasker & Sickles, 2010). There are many digital marketplaces that serve as platforms for business to business (B2B), business to consumer (B2C) and consumer to consumer (C2C) markets. Recently, there are many innovative digital marketplaces that created new markets and grow as global players in a relatively short time. For example, Uber is basically a digital marketplace for the transportation sector and Airbnb is a digital marketplace for the hospitality sector (Oskam & Boswijk, 2016). There are also plenty of digital marketplaces for digital products such as Google Play (Play Store) for Android mobile apps, iTunes for entertainment related products (music, movies, TV shows, etc.), and Craigslist for classified to name a few.

Digital marketplaces also grow locally and regionally, there are many digital marketplaces that concentrate on local/national and regional markets. As they have strong local or regional networks, they can compete with global players. Although local digital marketplaces are accessible globally, expanding a local digital marketplace to global markets is not easy as many factors need to be considered and the local firm needs to have the right internationalization strategy to penetrate global markets.

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