Chapter 4
A Trade Value Perspective on Ecommerce Research:
An Integration of Transaction Value and Transaction Cost Theories

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ABSTRACT

The impact of web-based electronic commerce on the process of disintermediation and re-intermediation has been extensively studied. Two major limitations of the existing work are the focus on a single economic measure (i.e., transaction cost minimization) and the examination of channel-structure decisions from only a single perspective (the seller's). This paper introduces transactional value theory in the context of channel-structure research and integrates it with transaction cost theory to generate a trade value framework. The trade value framework considers channel-structure decisions from the perspectives of both buyers and sellers and is used to analyze the impact of web-based e-commerce on intermediated channel-structures. The proposed framework suggests that intermediaries function best in a channel-structure if they can reduce trade-inhibiting factors and improve trade-enhancing factors. Intermediaries may also prosper if they deliver extraordinary value on one side of the trade value framework to the point that inhibiting factors on the other end of the trade can be overlooked. Intermediaries maximize the value of the trade for both the buyers and the sellers by trading through an intermediated channel-structure as opposed to trading directly.

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INTRODUCTION

Electronic commerce (EC) is a significant and pervasive phenomenon that is impacting not only organizations and societies (Numberger & Rennhak, 2005) but also the structure of markets and the economics of distribution channel-structures (Bakos et al., 2005; Benjamin & Wigand, 1995; Eng, 2008; Tsay & Agrawal, 2004). More specifically, the impact of EC on distribution channel-structures is of particular interest to intermediaries that operate in traditionally intermediated offline channels and sellers who are seeking an optimal distribution channel-structure in a changing economic landscape. For example, the Internet provides opportunities for web-based EC that may (a) result in the elimination of existing offline intermediaries, a process commonly called *disintermediation*, (b) provide new opportunities for existing intermediaries, labeled *re-intermediation,* and/or (c) provide opportunities for new forms of intermediaries, called *intermediation*. Multiple arguments exist in the literature that predicts each of these outcomes; this has tempered the predictive ability of any individual theory. This paper focuses on two principal reasons for these incompatible predictions: (1) the limited applicability of transaction cost theory (Williamson, 1991) in analyzing the impact of web-based EC on traditionally offline channel-structures and (2) the inherent shortcomings of transaction cost theory in discounting the effect of channel-structure on product demand.

In addition to using different definitions for intermediaries, the extant literature that examines the impact of EC is predominantly based on transaction cost (TC) theory and argues that information technology (IT) enables the elimination of factors responsible for increasing transaction costs for sellers and buyers (e.g., Benjamin & Wigand, 1995; Gehrig, 1993; Sarkar et al., 1995). However, most of the analysis presented in these studies apply TC theory from the seller's perspective and are predominantly focused on the reduction of transaction costs through reduced search costs. Other factors, such as maintaining long-term supplier loyalty, that may contribute towards increasing transaction costs are generally ignored. The scope of transaction costs to the buyer also needs to be extended to encompass more than just search costs to make the analysis more comprehensive. Therefore, we posit that *intermediaries are present in a trading structure to improve the trade-enhancing factors and reduce the trade-inhibiting factors for both buyers and sellers, and they will continue to exist only if they do not decrease the trade value that the buyers and the sellers could have had by trading directly*. We propose that the optimal trading structure will result from the simultaneous consideration of a set of relevant transaction costs and transactional values for both buyers and sellers.

Transaction cost theory (Williamson, 1975) has its own inherent limitations that hinder a comprehensive analysis of the issue. A major limitation of TC theory is its underlying assumption that organizational forms (i.e., the channel-structure) do not have a significant impact on the demand for a product (Zajac & Olsen, 1993). According to TC theory, sellers choose a channel-structure that minimizes transaction costs and therefore maximizes their profits. However, if the demand for a product is dependent on the channel-structure, choosing a channel-structure to minimize transaction costs will necessarily result in maximum profits.

To address these concerns, this paper introduces the *trade value (TV) framework* to complement transaction cost theory, which enables a more holistic analysis of the impact of EC on channel-structures and develops a theoretical understanding of effective digital intermediation as suggested by Kauffman and Walden (2001). An integrative framework is proposed by building upon existing research in (1) transaction cost theory, (2) transactional value theory, and (3) literature concerning distribution channels and consumer behavior. This integrative approach