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Impacts of the Internet...

Discussion by
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Summary

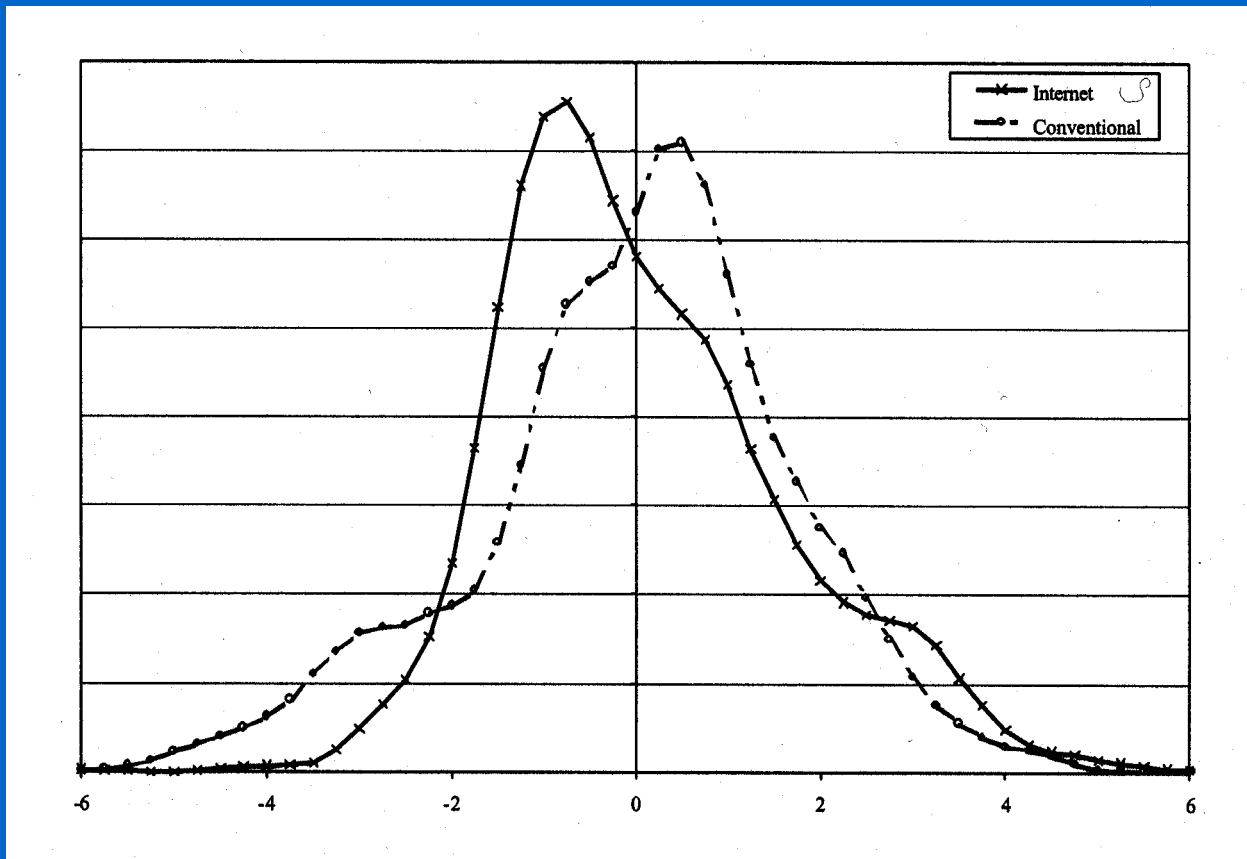
- ◆ Paper addresses impact of internet on
 - ◆ Price transparency
 - ◆ Differential pricing
 - ◆ Bypass and disintermediation
- ◆ My discussion will focus on same topics. Instead of discussing paper directly, I will present some facts, factoids, conjectures as well as some wild guesses.

Price transparency

- ◆ Fact: price dispersion seems to persist in internet markets
 - ◆ Evidence from books and CDs
 - ◆ Evidence from shopping bots: oversensitivity to shipping costs and taxes (irrational?)
 - ◆ (Other violations of the law of one price include currency choice in Scandinavian duty-free stores.)
- ◆ Explanation: product differentiation is important
 - ◆ Name recognition. Example: eTrade.
 - ◆ Non-contractibles such as delivery terms imply that trust is important. Examples: Amazon, eBay
 - ◆ Credit cards (?)
 - ◆ Other financial services (?)

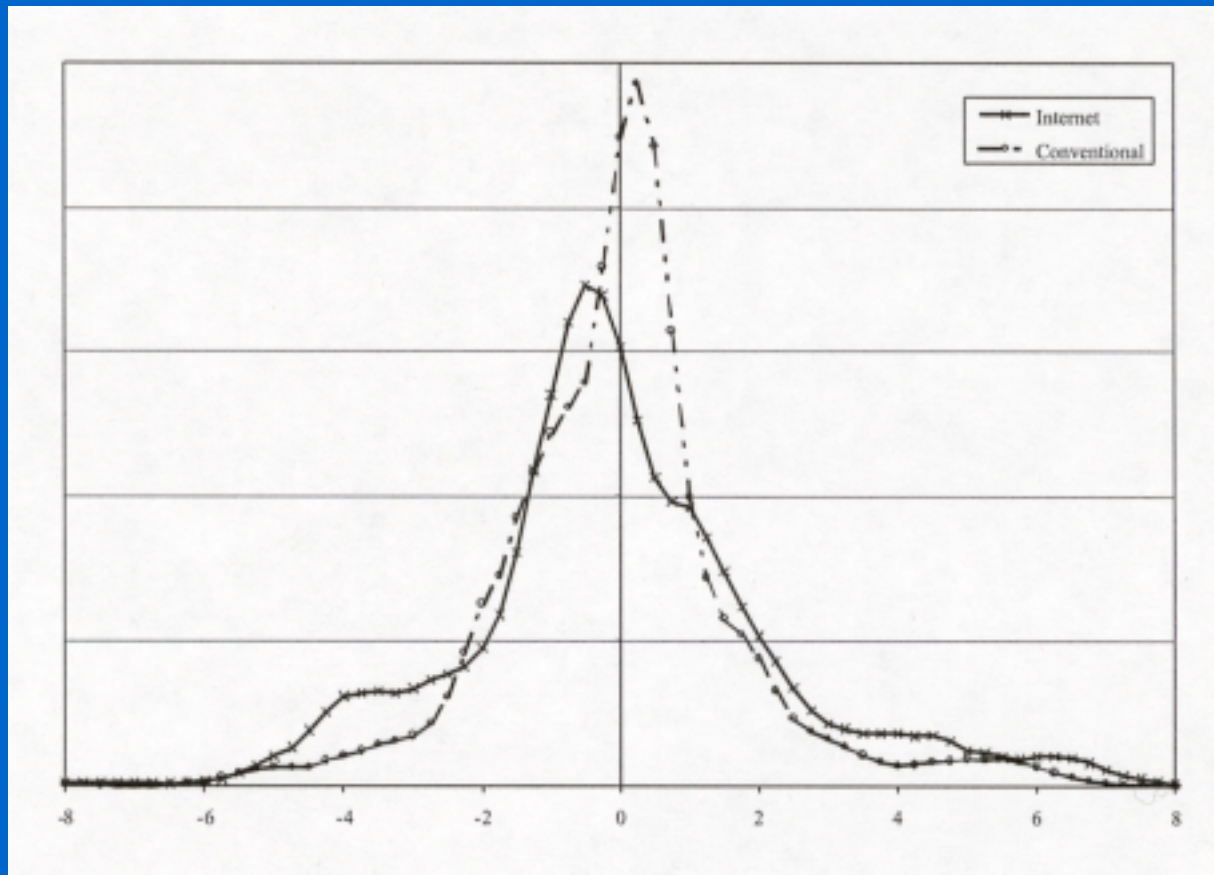
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CDs price dispersion



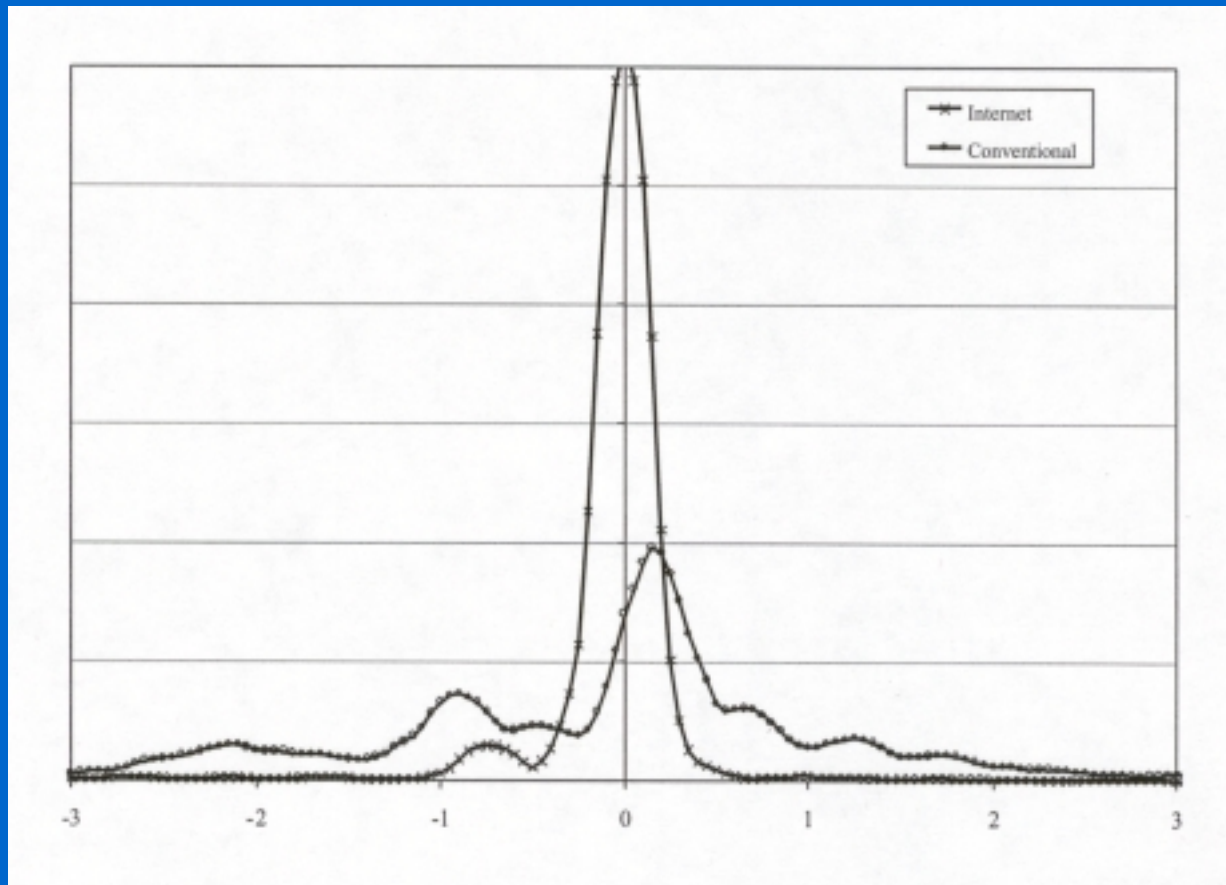
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Books price dispersion



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Books price dispersion (weighted)



Price transparency (cont)

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 - ◆ (Other violations of the law of one price include currency choice in Scandinavian duty-free stores.)
- ◆ Explanation: product differentiation is important
 - ◆ Name recognition. Example: eTrade.
 - ◆ Non-contractibles such as delivery terms imply that trust is important. Examples: Amazon, eBay
 - ◆ Credit cards (?)

Differential pricing

- ◆ Is price discrimination enhanced by the Internet?
 - ◆ Books: probably Yes. Relationship marketing, cookies, etc. Privacy and fairness concerns.
 - ◆ Financial services: probably No: face-to-face contact important part of the discrimination process.
- ◆ Is price discrimination the right strategy?
 - ◆ Price discrimination may well be a “Bertrand supertrap”
 - ◆ PD as a prisoner’s dilemma: it is an optimal strategy but may lead firms into deeper hole. Airlines (?)

Bypass and disintermediation

- ◆ Broader question: is Internet substitute or complement to brick-and-mortar?
 - ◆ Grocery shopping: probably substitute.
 - ◆ Personal computers: probably substitute (estimated cross-price elasticity is 1.5).
 - ◆ Cars: possibly complement: use Internet to find out about characteristics and purchase offline. The free-riding problem.
 - ◆ Financial services: if content or added services are bundled with basic services, then complement; otherwise, substitute.

Summary

The Internet is a nearly perfect market because information is instantaneous and buyers can compare the offerings of sellers worldwide. The result is fierce price competition, dwindling product differentiation, and vanishing brand loyalty.

--Robert Kutner, *Business Week*, May 11, 1998

- ◆ Well, maybe not...

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Is this what Internet competition is like?



Price War