

# The Ecommerce Phenomenon

Brian L. Dos Santos

Brian L. Dos Santos  
University of Louisville

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## Overview

- The fundamentals
- A macro perspective on the effects
- A micro perspective on the effects
- Opportunities & risks

Brian L. Dos Santos  
University of Louisville

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## New Economy Fundamentals

- The variable cost of moving anything that can be digitized from one entity to another entity can be close to zero for the party that wishes to move it.
- The economics of things that can be digitized and things that cannot be digitized are substantially different.
- In the industrial economy, most business models packaged components that can now be digitized (and achieve the same result) with components that cannot be digitized.

Brian L. Dos Santos  
University of Louisville

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## New Economy Fundamentals

### Things Physical

- Location is important
- Significant variable cost
- Storage & distribution costs are high
- Costs can be significantly lowered with better information
- Network effects are small
- Economies of scale can be extremely important

### Things Digital

- Location is unimportant
- Insignificant variable cost
- Storage & distribution costs are very low
- Costs may not be affected greatly with better information
- Network effects may be large
- Scalability is very important

Brian L. Dos Santos  
University of Louisville

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## Important Facts

- Consumers value (seek) things that can now be digitized (things digital) and things that cannot (at least today) be digitized (things physical).
- Producers & consumers value a reduction in uncertainty.
- Better information reduces uncertainty.
- The same information at lower cost is also valuable to producers & consumers.

Brian L. Dos Santos  
University of Louisville

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## Macro perspective on the Effects

- New industries are sprouting up that do a number of different things:
  - cannibalize existing industries that meet consumer needs with a heavily physical business model (e.g., resale markets).
  - cannibalize existing industries that meet consumer needs by bundling information (digital) & physical things by providing just the information component (e.g., financing in the auto & home sales businesses).
  - cannibalize existing industries that are primarily in the business of “handling digital products” (e.g., software)

Brian L. Dos Santos  
University of Louisville

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## Macro perspective on the Effects

- New industries are sprouting up to digitize a number of physical things (e.g., music & videos)
- Exchange business models that have existed for generations are being transformed by:
  - changing the way products are priced (e.g., auctions, discounts, etc.)
  - changing the way products are distributed (e.g., direct from manufacturer - eliminating middle men)
  - changing the way products are promoted (e.g., personalization, free stuff, etc.)

Brian L. Dos Santos  
University of Louisville

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## Micro perspective on the Effects

- Business to consumer (B2C) transformations
- Business to business (B2B) transformations
- Transaction based models are more common
- Direct to consumer (D2C) is a possibility
- Time and place are not significant differentiators any longer
- Transforming all brokerage industries -- industries that exist to bring buyer and seller together
- etc.

Brian L. Dos Santos  
University of Louisville

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## Opportunities

- Provide digitized information for specific entities (reduce uncertainty) where the information needs are currently served by physical models.
- Handle transactions digitally that are currently handled by physical models.
- Develop new digital products to replace physical products.

Brian L. Dos Santos  
University of Louisville

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## Risks

- Do not understand how the economics of things digital differ from the economics of things physical.
- Do not understand the industry or industries you are cannibalizing.
- Do not understand the business you are in -- who are your competitors?
- Do not understand what it takes to survive & thrive in the business you are in.

Brian L. Dos Santos  
University of Louisville

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