Chapter 3
Foundations of E-Commerce:
Theories, Online Intermediaries, and E-Commerce Business Models

LEARNING OBJECTIVES

After completing this chapter, you will be able to:

• Understand various foundation theories in e-commerce;
• Describe e-commerce business models;
• Understand the roles of online intermediaries;
• Describe emerging web 2.0-based business models;
• Discuss interaction dynamics between emerging Web 2.0-based businesses and existing businesses.

VIRTUAL WORLD

The Internet of today is greatly different from the Internet of ten years ago. The technology related to the web applications and software, the computational power of the hardware, and the speeds at which users access the Internet have all changed in very noticeable ways. These factors have led to the development of online environments that greatly widen the potentials of e-commerce. Internet technologies for e-commerce, education, information services, and gaming are now 3-dimensional, service-oriented, and user-centered.
A virtual world, in a variety of implementations, is becoming more popular every day. In a virtual world, it is possible for users to interact using avatars. Reflecting both the technical and social elements of virtual worlds, Bell (2008) defines a virtual world as “a synchronous, persistent network of people, represented as avatars, facilitated by networked computers” (p. 2). Virtual worlds persist in virtual reality spaces (Schroeder, 2008). Avatars are the representations of users in virtual worlds, often graphically displayed as 3-dimensional characters and are central to the way that users interact with people and objects in virtual spaces. One user can make an alteration (such as buying land and building a store) and that alteration will persist unless it is acted upon by the same user or other users.

The virtual world, Second Life, is one of the largest user-created, 3D virtual world communities. In Second Life, users are called “residents.” Many residents of Second Life use the virtual world to interact socially with other residents, run businesses, or learn how to do things in the real world. In Second Life, as of 2007, there was an estimated 3.1 million registered residents (Linden, 2007). There is also much user activity in Second Life with 1.4 million residents logged in within the last 60 days from March 25, 2009 (Second Life, 2009). The virtual world population is expected to reach 50 - 60 million by 2011 (Au, 2007).

Of even greater interest is the revenue generated at the virtual world business sector. The worldwide virtual world economy is valued at approximately $1.8 billion (Dibbell, 2007). Virtual worlds have also developed user bases large enough to inspire marketing efforts. For instance, Coca-Cola has developed a section of the virtual world There.com called MyCoke. This site features large promotional displays, Coke-branded virtual clothing, and activities for visitors. Based on marketing efforts from Coke and other companies, it seems clear that companies are very interested and relatively optimistic about the idea of using virtual world for promotion and branding.

After reading this chapter, you will be able to answer the following:

1. How can organizations generate value from web-based business models?
2. What are the impacts of e-commerce on transaction costs?
3. How can organizations utilize Web 2.0 technologies to build a new business model?

Sources

Related Content

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Literature Review
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Ting-Pong Vincent Chang, Jo Rhodes and Peter Lok (2013). *Journal of Electronic Commerce in Organizations* (pp. 22-42).
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