

Increased specialization and low barriers to entry have an impact on consumers and existing producers. Discuss how far the traditional analysis of these economic effects applies to the growth of online shopping. [15m]

Introduction

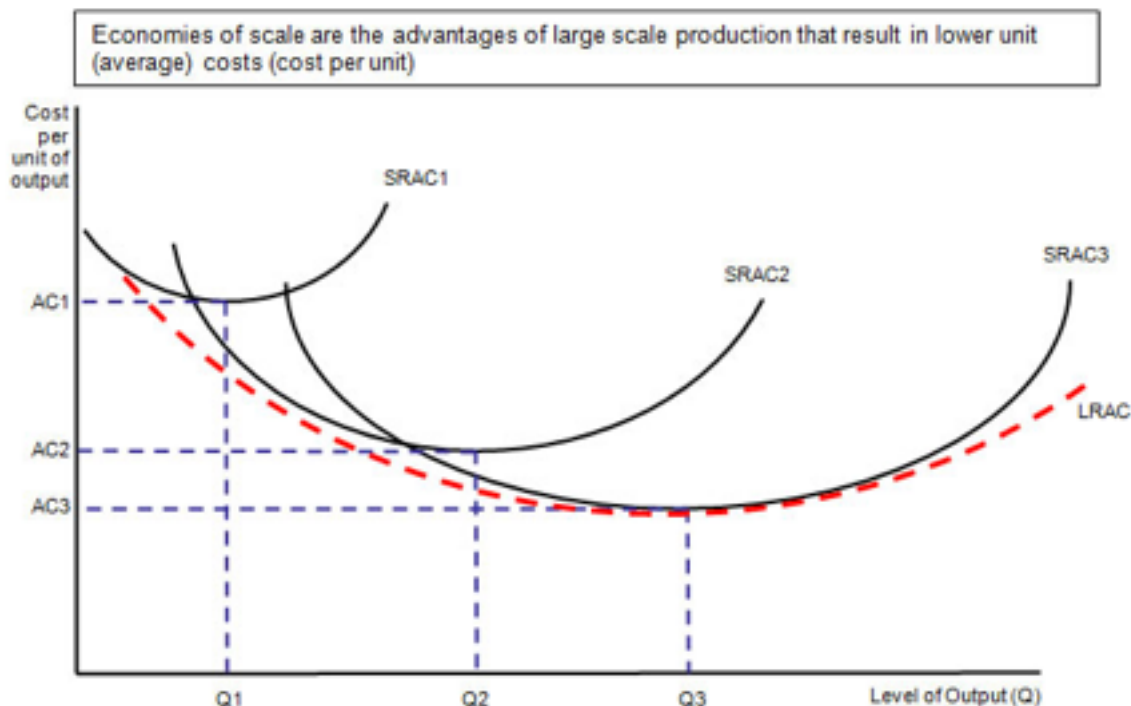
Ecommerce, which generated \$231 billion in sales for U.S. retailers last year, is expected to increase 13% to \$262 billion this year. The growth of ecommerce, which already accounts for about 8% of total retail sales in the U.S., is expected to outpace sales growth at bricks-and-mortar stores over the next five years, reaching \$370 billion in sales by 2017. By that time, ecommerce is expected to account for a full tenth of all retail sales in the U.S.

Increased specialization and low barriers to entry are two traditional parameters with which we can use to explain the exceptional growth of online shopping based on their impact of consumers and existing producers. However, apart from these two reasons, this essay would attempt to discuss that there are two other important factors which are also driving this growth.

Thesis (Specialisation have an impact on the growth)

From the producers point of view, specialization will reap economies of scale which will ultimately result in a decrease of the LRAC. Specialization in an economic sense refers to individuals and organizations focusing on the limited range of production tasks they perform best. This specialization requires workers to give up performing other tasks at which they are not as skilled, leaving those jobs to others who are better suited for them. Apart from individuals, the benefits for firms that specialize in their particular products can produce larger quantities to sell. Those firms and their employees use the proceeds from the sale of those goods to buy needed goods produced by other workers and companies. As a result of increasing the scale of production, the firm may then enjoy economies of scale.

The diagram below shows what might happen to the average costs as a business expands from one scale of production to another. Each short run average cost curve assumes a given quantity of capital inputs. As we move from SRAC1 to SRAC2 to SRAC3, the scale of production is



increasing. The long run average cost curve (drawn as the dotted line below) is derived from the path of these short run average cost curves.

From the consumer's point of view, the expansion of e-commerce is a great example of network economies of scale. This is a demand-side economy of scale. Some networks and services have huge potential for economies of scale. That is, as they are more widely used they become more valuable to the business that provides them. The classic examples are the expansion of a common language and a common currency. We can identify networks economies in areas such as online auctions, air transport networks. Network economies are best explained by saying that the marginal cost of adding one more user to the network is close to zero, but the resulting benefits may be huge because each new user to the network can then interact, trade with all of the existing members or parts of the network.

Thesis (BTE have an impact on the growth)

In ecommerce, there are no patented technology, and only a limited amount of other proprietary technology, that would preclude or inhibit competitors from entering the business. In addition, the costs to develop and provide eCommerce services are relatively low. Therefore, producers expect that they will continually face additional competition from new entrants into the market in the future. There is also the risk that firms' employees or independent contractors may leave and start competing businesses. The emergence of these enterprises could have a material adverse effect on producers. Existing or future competitors may better address new developments or react more favorably to changes within the industry and may develop or offer eCommerce services providing significant technological, creative, performance, price or other advantages over the services offered by others.

As a result, barriers to entry will impact both small firms and large firms differently. There are low barriers to entry into the eCommerce services market where producers face significant competition in a rapidly evolving industry. An example of small firms or individual producers are the individual sellers on the popular online website Qoo10 where any individual with a bank account can set up an online shop.

However for large firms that have already established themselves, the barriers to entry is too high for new entrants. An example would be Youtube and facebook. Such services is unlikely to proliferate with many suppliers to their network demand nature.

Anti-thesis (There are other factors fueling growth)

Apart from BTE and EOS, there are 2 other significant factors that is fueling the rapid growth of ecommerce. The first is proliferating use of smartphones and tablets, which are boosting the amount of time consumers spend online. For example, more than half of U.S. online consumers now have smartphones, and they're using them to research purchases, find stores and to find the best prices available — often completing a transaction directly on the device. Due to the increased pace of lifestyle, smart device owners are also spending their leisure moments (weekends, evening prime-time hours) shopping online.

The second factor contributing to growth is from the producer's viewpoint. As a result of the proliferation of 4G networks and smart devices, traditional retailers' increased investments in their online sales divisions, some simply to jump onto the bandwagon. Specifically, large retailers are building out omnichannel retail experiences, allowing store associates to "save a sale" by ordering out-of-stock merchandise through online backends, and letting online shoppers pick up goods in-store.

From the consumer's point of view, little of ecommerce's growth can be attributed to new shoppers. Rather, growth is coming from existing online shoppers who are spending more time and money — and in a wider variety of categories — online. Typically, early shoppers begin with "low-consideration" goods like MP3s and movies, moving up the ladder to "high-touch, high-consideration" items like furniture and appliances over time.

Conclusion

Thanks to the development of electronic commerce, the most basic of economic transactions—the buying and selling of goods—continues to undergo changes that will have a profound impact on the way companies manage their supply chains and how consumers buy their goods. Simply put, e-commerce has altered the practice, timing, and technology of producers. It has affected pricing, product availability, transportation patterns, and consumer behavior in developed economies worldwide. Therefore traditional analysis of these economic effects though still sound, but are insufficient due to the nature of ecommerce.