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Discussion Paper WI-46

Re-Intermediation based on Electronic Markets

by

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May 1998

presented at: 5th Research Workshop on Electronic Markets,
London, (Great Britain), October 1998.
(Abstract)

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Re-Intermediation based on Electronic Markets

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Abstract

The globalization of business is creating a variety of new opportunities for companies to tap new markets and to build competitive advantages by re-organizing their production and sales acitivities. Extensive use of innovative information and communication technology (ICT) will be a prerequisite for the ability to fully exploit this potential. On the other hand, companies operating in worldwide and electronically supported markets face increasing pressure from competitors around the globe. In such an environment, market share and profitability can only be sustained, if procurement and production processes are efficiently (re-)organized and coordination mechanisms for inter-organizational value chains can be conceived and implemented. Therefore, the development of ICT and, in particular, the increasing importance of global electronic markets require

- new ways to create products and services as well as to coordinate value chains across different companies
- new ways to market these products and services.

Intermediaries - understood as any institutions enabling the exchange of goods in a particular supplier-customer relation - play a major role in the coordination of economic activities. However, the functions they perform are subject to substantial change in electronically supported markets. In the literature, it is either argued that reduced transaction costs will cause disintermediation effects in electronic markets or - alternatively - that new kinds of intermediation services will appear. Movements in either direction can empirically be traced: Internet based stock placements that by-pass traditional stock exchanges provide an example for disintermediation while on the other hand Internet search engines represent a new type of intermediation service which is uncommon in non-electronic markets.

Objective of our work is to systematically analyze the impact that electronic markets may have on the individual intermediation functions as well as the overall importance of intermediation and intermediaries. Following a short description of individual intermediation functions, the analysis of a value chain will be separated into functional and institutional layers. This will first allow for a focused discussion on how electronic markets will impact the type of intermediation functions - regardless of their institutional grounding. Second, we will be able to analyze how electronic markets will, moreover, affect the allocation of these - perhaps modified - functions to individual companies including supplier, customer, formerly existing or new intermediaries.

As a result, we conclude that neither the term intermediation nor disintermediation is able to describe the changes initiated by electronic markets. Instead, we claim that a re-intermediation takes place, i.e.:

- Traditional intermediation functions will still be performed even in electronic markets.
- However, electronic markets provide new opportunities to coordinate economic acitivities. As a consequence, any intermediation function may be re-allocated to existing or new institutions (even including electronic agents).
- This re-allocation of intermediation functions will change the types of intermediaries operating in electronic markets.
- In particular, the borderline between production-type and intermedation-type functions (and suppliers and intermediaries) will increasingly be blurred. Thus, a re-interpretation of the term äintermediaryô may be advisable. Therefore, re-intermediation caused by electronic markets does not only mean a re-allocation of intermediation functions, but also a re-interpretation of the traditional terminology.

The concept will finally be illustrated using an example from the financial services industry. Based on our experience from a research project with Advance Bank, München, we will first split the complex service mortgage loan into the different functions needed to perform it. Secondly, we will demonstrate how these functions can be allocated to institutions and be coordinated across institutions using two different szenarios: universal and virtual banking concepts.