Discussion for Overby and Forman

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Overview

- Main question: What is the impact of electronic commerce on price dispersion?
  - Implications for trade and IO/marketing.
- Data: Wholesale used car market.
  - Detailed information on 2 million transactions between buyers/sellers.
- Main result: Buyers more (less) sensitive to price (distance) when they participate electronically.
  - Estimates nested logit model: Buyer first chooses whether to choose electronic or physical channel, and then decides which facility to purchase from.
Differences in facility options

- Nested logit model assumes that electronic and physical channels offer the same alternatives.

- Smaller set of feasible options for physical channel?
  - More pressure to win auctions if they have inventory quota?
    - If buyers in physical channel face a fixed cost that others do not face in electronic channel, could they face added pressure to win auctions if the dealership has an inventory quota to reach?
    - Would this make the buyers in physical channel more price inelastic?

- Censoring of facility options based on geography?
  - If buyers more price elastic in nearby locations (that offer more feasible alternatives), then the selection of facilities chosen by those using physical option may lead to more conservative estimates for interacted price sensitivity measures.
Differences in decision mechanisms

• The decision process is assumed to be the same for both electronic and physical channels.

• Possible reasons for different decision process across channels?
  • More representative participation in electronic channel.
    • Are buyers compensated differently if they use one channel over another?
  • Reservation price/quota established before attending the physical auctions, and established real time when participation is via the webcast.
    • In other words, more pre-auction planning for physical auctions versus electronic ones?
  • Webcast charges a fee for using the service.
    • Also, is there a tiered system in which heavy users/bidders pay more for access to the system?
Details about price discovery process

- Curious to know more about the impact of electronic commerce on price dispersion.
  - What does the evolution of price dispersion look like across the different channels?
- Does electronic commerce have level effect on price dispersion, or simply brings it to the “long run equilibrium” sooner?
  - Interesting to see a graph showing the coefficient of variation (electronic) and coefficient of variation (physical) over time.
  - Does the CV (physical) converge to CV (electronic) with time?
  - Assuming there is persistence in the type of markets (in terms of high/low prices), dealers should be able to discover the prices if they are sufficiently experienced.
Exploring potential policy implications

- Given that buyers face disutility of using the electronic channel, should policy aim at incentivizing this channel?
  - Provide funding to webcast for improvements in real-time performance, interface design, and communication/bidding efficiency.
  - Make the electronic channel “indistinguishable” to that of the physical channel.

- Counterfactual analysis of the demand model allows the following trade-off analysis:
  - Buyers benefit from price discovery and lower prices.
  - Sellers may be worse off as they extract less out of the buyers.
    - Buyers surplus > seller’s surplus?
Minor suggestions

- It would be helpful for the reader to see the following:
  - Raw data, such as the min/max/mean of the prices and distances under the electronic and physical channels.
  - Institutional details of
    - Bidding process.
    - Electronic webcast.
Summary

• A very interesting paper that contributes to a number of fields in economics and marketing.

• Careful empirical analysis using demand estimation and a variety of robustness checks.

• More attention to the intrinsic differences between electronic/physical channels would help establish further credible identification.

• Paper offers a nice framework for additional analysis of price discovery across the two channels, along with potential policy implications for public investment in e-commerce infrastructure.
Thank you!