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The Effects of Information Transparency on Suppliers, Manufacturers and Consumers in Online Markets

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Abstract

This paper looks into the effects of information transparency on market participants in an online trading environment. We study these effects in business-to-business (B2B) electronic markets with firms competing in *both* upstream and downstream industries. The prior literature generally assumes that either the downstream firm (buyer) or the upstream firm (seller) is a monopoly. It is not clear whether information transparency would still create value if *both* buyers and sellers face oligopolistic competition where the benefits of information transparency could be competed away. To answer this question, we first develop a simple two-echelon e-market model, and then extend the model to more general settings. We find that information transparency can create value for the overall e-market, yet it affects buyers and sellers very *differently*: one side will be hurt, depending on the competition mode (Cournot or Bertrand) in the downstream. This suggests that a manufacturer-owned, a supplier-owned, and a neutral e-market will have different preferences for information transparency. Finally, we find that information transparency can hurt consumers when the downstream industry engages in Bertrand competition. This is a surprising result given the expectation that online markets create substantial value for consumers.