Discussion on Information Asymmetry in B2C E-commerce

QIN Dezhi¹, ZOU Lifang²
1. School of Business & Tourism Management, Yunnan University, P.H.D, No.2 North Cuihu Road Kunming, 650091, 86-13888673168
2. School of Business & Tourism Management, Yunnan University, Master, No.2 North Cuihu Road Kunming, 650091, 86-15925163556
qindezhi@vip.sina.com

Abstract: This paper analyzes the specific manifestations of information asymmetry before and after B2C(business to customer) e-commerce transactions for small and medium-sized enterprises, analyzes the causes of information asymmetry in three aspects: the virtual of e-commerce, one-time transaction of businesses, as well as the imperfection of information disclosure system, and analyzes the impact of information asymmetry on e-commerce development from three dimensions: e-commerce market, the honest merchant, as well as consumer. Then, this paper put forward some measures such as establishing third-party to audit business information published, and so on.

Keywords: e-commerce, B2C, small and medium-sized enterprise, information asymmetry

1 Introduction

The concept of information asymmetry emerged in the nearly 1970s, and refers to the uneven distribution of market information between both parties involved in the transaction [1]. The popular application of the internet has greatly increased the efficiency of consumer access to information and reduced the access cost. However, the information asymmetry has not been eliminated in B2C e-commerce market, and is even more and more serious as a result of the virtual of networks. Many unscrupulous businesses used their information advantage to defraud the legitimate rights and interests of consumers, which mainly exits in B2C e-commerce market for small and medium-sized enterprises, this phenomenon has seriously hampered the development of e-commerce, and consequently, it is imperative to take effective measures to reduce and even eliminate the information asymmetry. This article is only to explore the information asymmetry in B2C e-commerce for small and medium-sized enterprises.

2 Analyzing the Specific Manifestations and Causes of Information Asymmetry

2.1 The specific manifestations of information asymmetry in B2C e-commerce for small and medium-sized enterprises

In B2C e-commerce market for small and medium-sized enterprises, information asymmetry can be divided into: pre-trade information asymmetry and after-trade information asymmetry according to the time of occurrence.

2.1.1 Pre-trade information asymmetry

The information asymmetry before the transaction is mainly demonstrated in the following areas: (1) merchants owning the information advantage. On the one hand, the business is well aware of the reputation and product quality themselves, but they do not provide all information on the web site, or deliberately add or deleting certain information, such as publishing false information. On the other hand, consumers can obtain product information only through text, pictures and other information that the web site include. So, merchants own the advantaged position while consumers are in the disadvantaged place. According to Chinese Internet Shopping Study Report in 2008 published by the China Internet Network Information Center, for the unpleasant shopping experiences on the internet, the situation in which received physical goods by customers are not consistent with online picture, accounts for 33.5%. And
the situation in which commodities are counterfeit but the seller does not inform consumers in advance accounts for 5.4%. (2) The information asymmetry between sellers’ supply and buyers’ demand. The seller find it is difficult to capture the real needs of consumers, and as a result, the goods displayed on the web site can not meet the consumer’s real need, and what consumers really need is not provided on the web site. (3) Consumers are difficult to confirm the identity of the merchant. Small and medium-sized businesses are unlike large-scale enterprises or well-known enterprises that have a high reputation and good word-of-mouth, so customers find it is very difficult to identify the good faith business from a large number of businesses.

2.1.2 After-trade information asymmetry

The information asymmetry after the transaction is mainly manifested in the following areas: (1) when consumers made the payment, a number of bad faith businesses for small and medium-sized enterprises do not delivery goods in the right time, defraud money from customers without sending out goods, or the good quality is less than a pre-agreed standard. Based on Chinese Internet Shopping Study Report in 2008 published by the China Internet Network Information Center, for the unpleasant shopping experiences on the internet, receiving inferior or defective products accounts for 17.7%, the situation in which merchants do not delivery goods in the receipt of money accounts for 9.4%, and the excessive delivery-time accounts for 17.7%. (2) After receiving the goods, the consumer requires goods to be returned because of the goods quality is inferior or physical goods does not consistent with the description on the web, while the fact is that consumers do not want this product. (3) After receiving the goods, consumers denied the transaction and refused payment.

2.2 The causes of information asymmetry in B2C e-commerce market for small and medium-sized enterprises

2.2.1 The virtual environment for e-commerce transactions

As a result of the virtual network, there are several separated phenomenon in e-commerce market such as the separation of information with physical goods, commodities with sales web site, as well as ordering with distribution. These separations brought more conveniences as well as greater uncertainty at the same time, making lots of phenomenon of information asymmetry in e-commerce market, such as the prominent information asymmetry of product quality in e-commerce environment. In traditional markets, consumers can determine the authenticity of products through direct contact and face-to-face exchanges with merchants by which they can weaken or even eliminate the uncertainty of product quality. But in e-commerce market, physical goods just can convey the quality of information through text, photographs, and other virtual forms, so consumers can not verify the authenticity of the information.

2.2.2 The one-time business transaction

In e-commerce market, as a result of the virtual network and extensive resources, transactions are less stable, the probability of repetitive transactions is low, and this one-time transactions mainly exit in some small and medium enterprises. Generally speaking, large-scale enterprises stress integrity for the development of long-term interests, so the one-time fraud transaction mainly exits in small and medium-sized enterprises. Suppose in a transaction, the honest merchant provides high-quality products for the price P, and the cost is C1. For consumers, the value of the product is V (V> P), and dishonest merchants provide poor-quality products which cost is almost 0, so the proceeds of consumers in buying poor-quality products is T (T> 0 and T is much smaller than (V-P)). As shown in Figure 1: (the item in front of the comma is consumers’ proceeds, after that is the receipts for the merchant.)

Obviously, (1) $P > P - C_1$, if buyers and sellers to conduct transaction by only once, illegal merchants will take dishonest measures to achieve the maximization of self-interest. (2) $V$ is much larger than 0, for the sake of the interests, some consumers will not comply with the trading rules.

2.2.3 Imperfect information disclosure system
In e-commerce transactions, consumers don’t know where to complaint when they find goods which does not match with the quality of information published on web site, which quality is inferior, or in some cases, consumers might think that the loss is so limited that it is not necessary to find out who must blames for it, and just only not to trade anymore.

3 The Impacts of Information Asymmetry on the Development of E-commerce

3.1 The impacts on e-commerce market
In e-commerce environment, no matter how the scale of merchant’s store is, it is more or less the same as a shop site with text and pictures information. Merchants with high-quality products find it is difficult to establish their own reputation through the network. Consumers select the merchants only through the available picture and the price comparison information on web site, so it may lead to higher prices with lower quality goods, or to buy the fake and shoddy goods. As a result, consumers would not be confident in e-commerce, and even trade online anymore. These phenomenon make the e-commerce market operate inefficiently, and difficult to develop. Looking at the current e-commerce market, large-scale enterprises pay more attention to business credit or reputation than small and medium-sized businesses, so when talking about the issue of information asymmetry, it is mainly discuss the impact of e-commerce market due to the information asymmetry between small and medium enterprises and consumers.

3.2 The impact on honest merchants
Compare with businesses in traditional market, the merchant in e-commerce market has lower barriers to entry and operating costs, therefore, some small and medium-sized enterprises on the network defraud consumers with multiple statuses, which in turn has great impact on the honest businesses in an negative way. It is difficult for consumers to distinguish the authenticity from a large number of businessmen, so he only accepts prices of goods according to the average market level in both quality and prices, and it is not unfair for the businessmen with high-quality products. In addition, if the consumer buys inferior goods with higher prices, he will psychologically reduce the price of products when he decides to buy again. Gradually, merchants with high-quality products will withdraw from the market due to unprofitable position.

3.3 The impact on consumers
Due to the information asymmetry, there will be some situations occurred for consumers in e-commerce trading market: (1) buying the fake and shoddy goods; (2) buying the same quality of goods with a
higher price; (3) buying poor-quality goods with the same price. No matter what the situation occurs, it will damage consumers' interests, and make consumers lose confidence in e-commerce market. The bad faith businesses in small and medium-sized enterprises making use of information asymmetry have a great impact on integrity businesses.

4 The Solutions to Information Asymmetry

4.1 The solutions to pre-trade information asymmetry

4.1.1 Establishing an authoritative third-party to audit merchant's product information published

It is necessary to establish an authoritative third-party agency. When merchants need to release product information, they must send these information to the third-party agency. Product information can be published on the web site only when they are audited by the third-party. Product information must meet the standard format. Organizations as the third-party have the right to request the seller to provide detailed information and refuse to accept the incomplete product information. All product information need to be audited by the third-party and then would be published by this party if they meet the regulations of the audit. Moreover, merchants have no right to amend information. The information must be audited and implemented by the third-party agency if necessary. As shown in Figure 2.

4.1.2 Establishing an information-sharing interface online for buyers and sellers' needs

It is advisable to add a platform online for consumers to publish demands on the relative web site when consumers can not find or feel difficult at getting products she needed, he can publish his needs through this platform, and interested merchant will contact consumers. So the consumer needs would be met, and the potential market chances would be provided to businesses. Further, merchants can also predict the potential market demand in accordance with the needs information published on web site.

4.1.3 Perfect the identity-auditing system

The problem of identity authentication could be solved by introducing the identification card audit system in reality into the internet, and the specific solution reads as follows: unite every local notary agency into a unified network as the notarized platform. If a businessman wants to run a shop online, he must take his ID card to local notary agency and have a face-to-face off-line audit. The local notary agency reviews them in strict accordance with the requirements and process of a public notary, and assumes the corresponding legal responsibility. The audited information will be stored into the center of a notary agency database. The authentic identity of businesses would be guaranteed in the following e-commerce by doing so.

Figure 2  the flow chart of product information released

4.1.4 Strict access to e-commerce
In traditional market, merchants own a business license issued by the government to protect the rights and interests of consumers. And this mechanism becomes more important in the virtual network business. Therefore, in e-commerce market, the government should play its functions to establish an e-commerce certification structures to audit and register businessman who want to enter into e-commerce market. The e-commerce certification structure issues e-business license for businessman only when they pass the audit. Businessman can put this license on his web site to identify his authenticity.

4.1.5 The integration of the traditional and online stores
As a result of the network virtuality, consumers find that information on the network are basically the same for all products, and a number of integrity businessmen for small and medium-sized enterprises are also difficult to improve their own credibility through conveying effective information of product quality. If the merchant owns an entity store off-line, he can establish and promote his own brand to enhance consumer’s awareness and satisfaction. In addition, consumers can determine the trust level for online merchants through their own entity stores. If the enterprise has established a reliable off-line business, this reliable credit can be directly extended to the online virtual market, and win consumers’ trust through conveying high-quality product information. For the small and medium-sized businesses, it is important to integrate the traditional and online stores for long-term development.

4.1.6 The promotion of repeated games
Through repeated games, both sides can better know each other's information and make information more comprehensive and reliable. If one side of the game takes betrayal action, then the other side will implement retaliatory measure. Similarly, if one side takes the attitude of cooperation, the other will also takes co-operative attitude in the next transaction. If the game can be repeated, the both game will adopt a long-term cooperative attitude, so as to achieve mutual benefits. As long as any party takes betrayal action, then he or she will lose the long-term opportunities for cooperation, as well as the benefits of cooperation. It can be seen in the repeated game mechanism, both sides will adopt a cooperative attitude and achieve win-win situation.

4.2 The solutions to information asymmetry after the transaction

4.2.1 Putting constraints on merchants’ behavior by the authoritative third-party agency
When consumers place an order, consumers have the right to cancel this order if the merchant does not delivery within the specified time. And if merchants’ action has led to consumer’s loss, then consumer has the right to request merchants paying for damages through the authoritative third-party agency.

4.2.2 Using third-party payment platform
Third-party payment (for example Taobao) process is as follows: consumers first deposit the money into a third party (Zhifubao) temporarily, then the seller delivered goods, finally the consumer inform the third party for paying after receiving the goods. This method can avoid effectively the problem that the seller delay delivery after the deal to a large extent. If consumers find that the goods quality does not consistent with the pre-agreement, or the goods is inferior, the consumer has the right to require payment to be returned and refund after the confirmation executed by a third party.

4.2.3 Provide comprehensive after-sales service and return or replacement system
Merchants with high-quality products can show their reputations through providing a complete after-sale service system and the returns or replacement service for consumer, for instance, warranty commitments by the automobile manufacturers or dealers imply the high-quality of their products while other businesses without such confidence for products would not make similar warranties. So consumers can determine the level of product quality in accordance with whether the merchant provides this service.

5 Conclusion
The information asymmetry has seriously hindered the development of e-commerce, especially the information asymmetry created by small and medium enterprises. Many illegal small and medium-sized businesses use their information advantage to defraud consumers to obtain high profits, making consumers lose confidence in e-commerce. In order to establish the confidence of consumers, as well as to promote the rapid development of e-commerce, the whole society should unite and fight against illegal merchants to protect the legitimate rights and interests of consumers. Once the information asymmetries are solved, the e-commerce will flourish in the future.

References


