Emerging E-Business Models and Their Impact

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INTRODUCTION

Nearly forty years ago, futurist Alvin Toffler published *The Third Wave* (Toffler, 1981). In this book, Toffler describes the evolution of human society as the concept of waves. Specifically, *the first wave* is the transition of hunter-gatherer society to an agricultural society, which occurred around 10,000 BC; *the second wave* is the transition of agricultural society to industrial society, which started 200 years ago; and *the third wave* is the transition of post-industry society to information age, which is happening right now.

Forty years ago, not too many people were using computers. The fastest computer in the world at that time is probably slower than the smartphone in your hand now. Forty years later, when we look around, we are amazed by the accurate predictions made by Toffler and impressed by how much we are dependent on information technology.

Information technology is transforming our society in every aspect, such as education, healthcare, entertainment, finance, transportation, engineering, and more. Information technology revolution can provide us new tools and new experiences, which are especially welcomed by new generations. However, besides the positive impacts, information technology revolution also brings challenges for traditional businesses, which are unfortunately classified as sunset industry. This impact could be massive. In the past twenty years, we have witnessed the rise and fall of various business models due to the revolution of information technology.

Undoubtedly, we are living in a critical era filled with ideas, opportunities, and conflicts, especially in the business field. Information technology-enabled business (e-business) is changing our lives, our society, and our world (Markoff, 2005). Generally speaking, e-business (electronic business) is the conduct of business processes on the Internet. These new business models include e-commerce, mobile payment, marketplace lending, social networking, digital advertisement, mobile-enabled transportation, virtual games, virtual entertainment, and distance education. Some of these e-business models are mature and well known, such as e-commerce. Others are relative new. This paper describes some of the emerging e-business models that are transforming our society, including marketplace lending, mobile-enabled transportation, peer-to-peer rental, and personalized marketing. The objective of this paper is to help readers understand the dynamic features of business activities, especially when they are under the influence of information technology, so that people can better adapt to the changing world.

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MARKETPLACE LENDING

Background

Lending is one of the oldest financial activities, in which money is borrowed by one party from another party. The borrower is obligated to pay back the money with accrued interest. A traditional peer-to-peer lending occurred between one borrower and one lender. This kind of model clearly put the lender in a risky position, because if the borrower cannot pay back the loan, the lender's business will not be able to sustain.

Banks are considered a better lending solution, because the money of individual investors is consolidated by the bank and then lent to borrowers. The risk of loan default of an individual borrower is averaged down to many lenders. Although this lending model takes a less risk, it has the disadvantage of low return rate (interest rate) on investment, because part of the lending profit goes to banks.

Banking business began about 2000 BC in Assyria and Babylonia. In the following 4000 years, bank-based lending business played significant roles in the evolution of human business activities and human society (Green, 1989). Especially in the past two centuries, financial institutions (like banks), were among the most influential factors to shape the modern world. The highest buildings in downtowns of most cities belong to banks; their branches are accessible anywhere in the world; their advertisements appear in major media all the time.

As the evolution of information technology has redefined many business models, the lending business is no exception. A new Internet-based peer-to-peer lending emerged. To distinguish this lending business from the traditional peer-to-peer lending, it is also referred as marketplace lending.

The idea of marketplace lending is that both the borrowers and the lenders come to an Internet-based platform (marketplace), where they are matched with the support of complex computer algorithms. In many platforms, the lenders have a choice to pick the category of borrowers, and the risk of loan default is known to the lender. Because the lending platform is Internet based and it can attract users everywhere, the business is easy to scale up. In addition, the lending process is supposed to be monitored by and conducted through computer programs, the business cost could be reduced. Therefore, it is a win-win solution for both the lender and the borrower: the lender is expected to receive a higher return rate than the bank interest and the borrower is expected to pay a lower interest rate than the regular bank rate (Moldow, 2014).

Status Quo

Lending Club is the leader of marketplace lending in the US. It was launched in 2007 (Mach et al., 2014). On *Lending Club*'s online platform, borrowers need to provide personal, financial, and loan information so that the computer program can decide whether to grant the loan. If the loan is granted, the interest rate will be determined by the borrowers' credit history and payback ability. Meanwhile, Individual lenders could invest on these loans through the *Lending Club* platform. Their investments could be subdivided into small chunks for different borrowers in order to average down the risk of loan default of individual borrowers. *Lending Club* profits from charging service fees to the lenders.

Because the loan demands grow faster than individual investment, *Lending Club* also bundle the loans and sell them to institutional investors, like banks. There are two important features of *Lending Club* business. First, the loan is not secured and it is not guaranteed that the lenders could always get