



E-commerce

business. technology. society.

Third Edition

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Chapter 13

Auctions, Portals, and Communities



Auction Fever

Class Discussion

- Why is United Airlines using auctions to redeem frequent flyer miles?
- Why are auctions better than liquidation sales for retailers?
- What is meant by the term, “auction marketing?”
- Why would consumers pay more at auctions than at in-store liquidation sales?



Major Trends in Auctions, Portals, and Communities—2006

- Auctions
 - eBay continues to expand but more slowly
 - Use of fixed price platform increases
- Portals
 - Portal business model, driven by advertising revenues, experiences resurgence
- Content places increasingly important role
- Communities
 - MySpace fastest growing community in history
 - Commercial sponsorship and advertising-supported business models increase



Auctions

- Online auction sites among the most popular consumer-to-consumer sites on the Internet
- eBay.com: market leader
- Several hundred different auction sites in U.S. alone
- Established portals and online retail sites increasingly are adding auctions to their sites



Defining and Measuring the Growth of Auctions and Dynamic Pricing

- Auctions—markets in which prices are variable and based on the competition among participants who are buying or selling products and services
- Types of pricing
 - Dynamic pricing
 - Fixed pricing
 - Trigger pricing
 - Utilization pricing
 - Personalization pricing



Defining and Measuring the Growth of Auctions and Dynamic Pricing (cont'd)

- Most widely known auctions are consumer-to-consumer (C2C) auctions in which auction house is simply an intermediary market maker
- 2005: C2C auction sites generated \$15.4 billion; B2C auction sites, \$11.4 billion



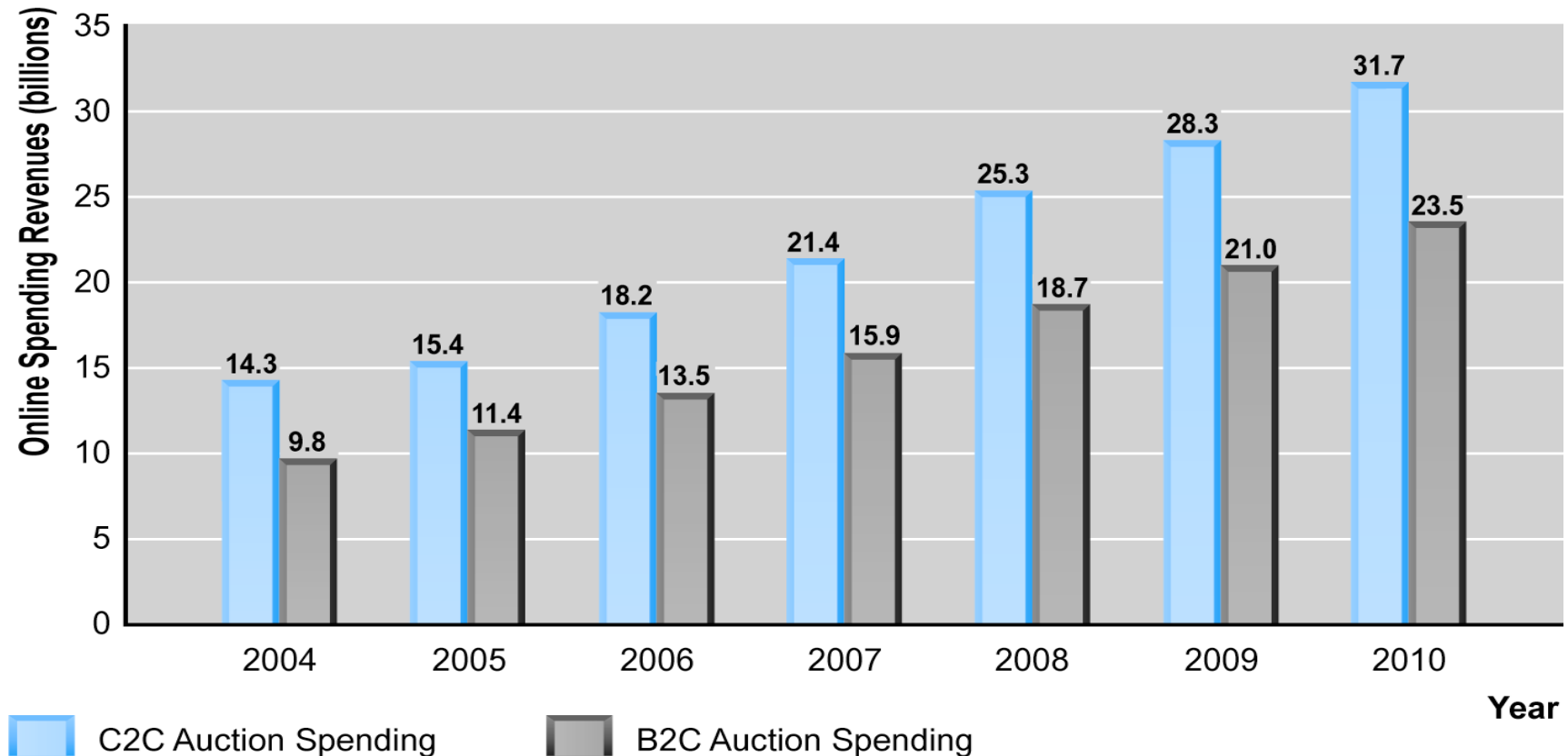
Insight on Society: Dynamic Pricing: Is This Price Right?

Class Discussion

- What is dynamic pricing?
- What are the various types of dynamic pricing?
- Why would consumers be opposed to dynamic pricing? Is dynamic pricing “anti-consumer?”
- Should customers be told that today’s prices will change without notice? Or that some consumers pay less for this product, sometimes?

Projected Growth in Revenues from C2C Auctions and B2C Dynamic Pricing

Figure 13.1, Page 748



SOURCE: Based on data from eMarketer, Inc., 2005; Forrester Research, 2005; authors' estimates.



Benefits of Auctions

- Liquidity
- Price discovery
- Price transparency
- Market efficiency
- Lower transaction costs
- Consumer aggregation
- Network effects



Risks and Costs of Auctions for Consumers and Businesses

- Delayed consumption costs
- Monitoring costs
- Possible solutions include:
 - Fixed pricing
 - Watch lists
 - Proxy bidding
- Equipment costs
- Trust risks
 - Possible solution—rating systems (not always successful)
- Fulfillment costs

Internet Auction Basics

- Internet auctions are different from traditional auctions
 - Tend to go on much longer (usually a week)
 - Have a variable number of bidders who come and go from auction arena
- Market power and bias in dynamically priced markets
 - Where number of buyers and sellers is few or equal: neutral
 - Where one or small number of sellers and many buyers: seller bias
 - Where many sellers and few buyers: buyer bias



Internet Auction Basics (cont'd)

- Price Allocation Rules
 - Uniform pricing rule: Multiple winners who all pay the same price
 - Discriminatory pricing rule: Winners pay different amount depending on what they bid

Bias in Dynamically Priced Markets

Figure 13.2, Page 755

| | | BUYERS | |
|---------|---------|--|-------------------------------------|
| | | One/Few | Many |
| SELLERS | One/Few | Market Neutral (Negotiation) | Seller Bias (eBay Auction) |
| | Many | Buyer Bias (Priceline and Sealed Bidding) | Market Neutral (Stock Exchanges) |

Types of Auctions

- English auctions:
 - Easiest to understand and most common
 - Single item up for sale to single seller
 - Highest bidder wins
- Traditional Dutch auction
 - Uses a clock visible to all that displays starting price, ticks down until buyer stops it
- Dutch Internet auction
 - Public ascending price, multiple units
 - Final price is lowest successful bid, which sets price for all higher bidders

Types of Auctions (cont'd)

- Name Your Own Price Auctions
 - Pioneered by Priceline
 - Users specify what they are willing to pay for goods or services and multiple providers bid for their business
 - Prices do not descend and are fixed

Types of Auctions (cont'd)

- Group Buying Auctions (Demand Aggregators)
 - Facilitate group buying of products at dynamically adjusted discount prices based on high volume purchases
 - Based on two principles
 - Sellers are more likely to offer discounts to buyers purchasing in volume
 - Buyers increase their purchases as prices fall
- Professional Service Auctions—Elance.com
- Auction Aggregators—use Web crawlers to search thousands of Web auction sites and accumulate information on products, bids, auction duration, etc.
 - Unlicensed aggregators opposed by eBay



When to Use Auctions (And For What) In Business

- Factors to consider:
 - Type of product
 - Product life cycle
 - Channel management
 - Type of auction
 - Initial pricing
 - Bid increments
 - Auction length
 - Number of items
 - Price allocation rule
 - Closed vs. open bidding



Auction Solution Providers for Business

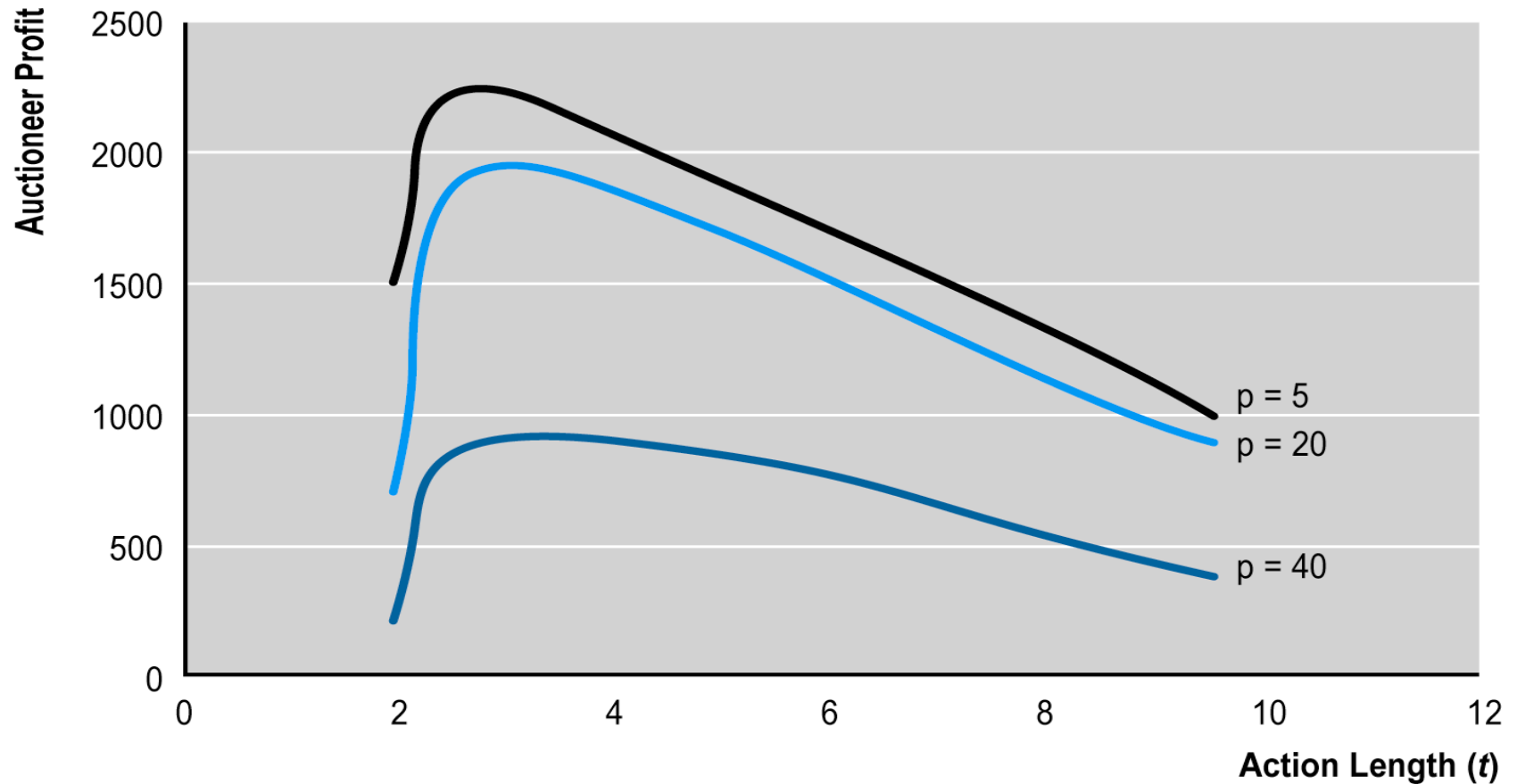
- Some provide software that enable firm to host auctions on their own Web site
- Some have developed tools that allow a business to transfer information from its product database directly to multiple auction sites automatically

Seller and Consumer Behavior at Auctions

- Seller profits: function of arrival rate, auction length, and number of units at auction
- Auction prices not necessarily the lowest
 - Reasons include herd behavior (tendency to gravitate toward, and bid for, auction listing with one or more existing bids)
- Unintended results of participating in auctions:
 - Winner's regret
 - Seller's lament
 - Loser's lament
- Consumer trust also an important motivating factor in auctions

Auctioneer Profits

Figure 13.3, Page 765



SOURCE: Based on data from Vakrat and Seidmann, 1998.



When Auction Markets Fail: Fraud and Abuse in Auctions

- Auction markets are particularly prone to fraud
- 2005 IC3 statistics:
 - 81% of Internet fraud complaints concerned online auctions
 - Median lost: \$200
 - Most common fraudulent payment mechanism: money orders and credit cards

E-commerce in Action: eBay.com

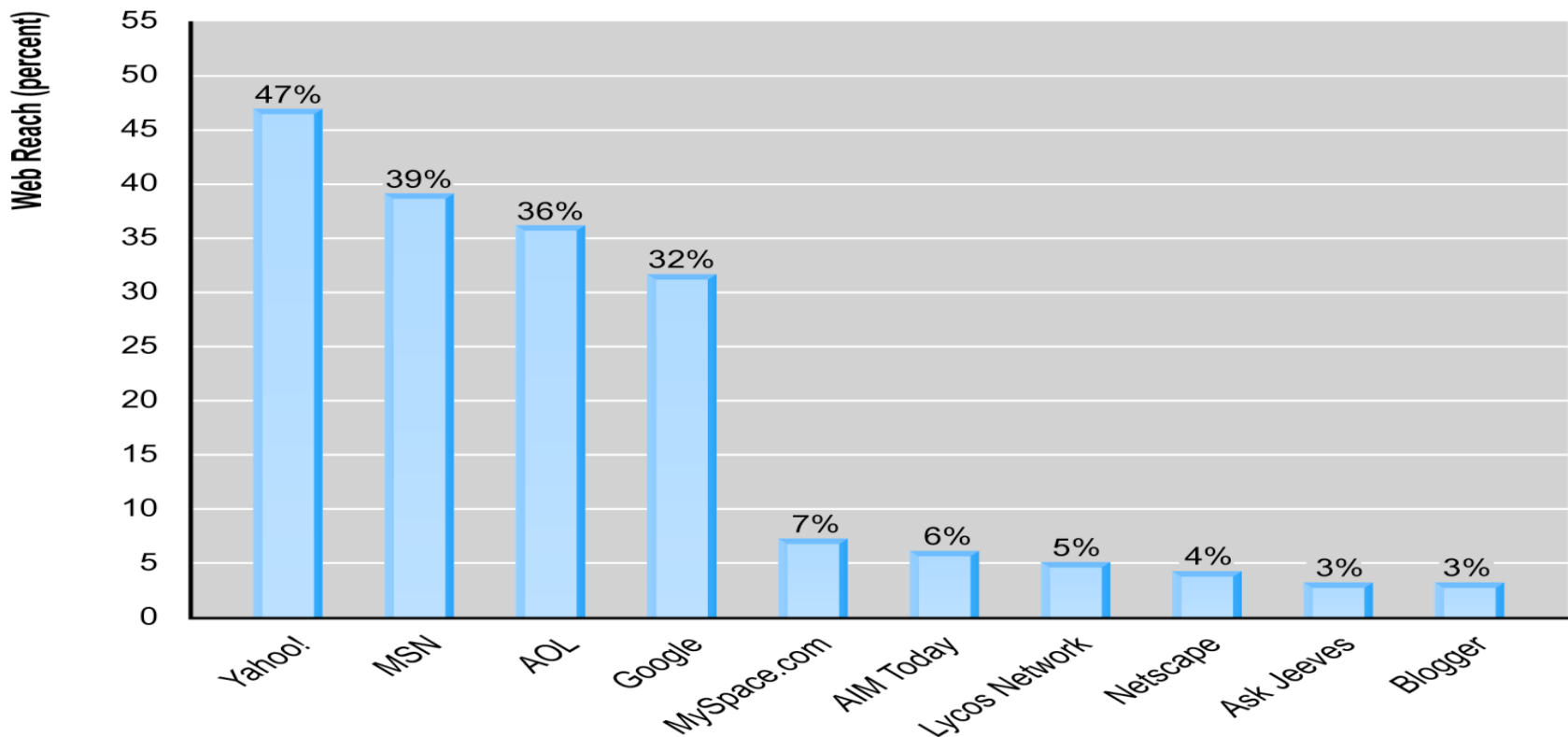
- World's largest and most popular online auction
- Major e-commerce success story
- Business model ideally suited to Web
- Derives all revenue from movement of information
- Excellent financial performance
- Business strategy based on expansion in both geography and scope
- Auction fraud and abused a major challenge
- Track record of more than 5 years of growth and profitability suggest a bright future

The Growth and Evolution of Portals

- Portals: most frequently visited sites on the Web
- Are gateways to the more than 8 billion Web pages
- Most of top portals today began as search engines
- Today provide navigation of the Web, commerce, and content (own and others')
- Top portal/search engine sites 2005 in terms of reach:
 - Yahoo (including Overture and AltaVista)
 - MSN (Microsoft Network)
 - AOL (America Online) (including Netscape)
 - Google

Reach of the Top Portals and Search Engine Sites in the United States

Figure 13.4, Page 779



SOURCE: Based on data from eMarketer, Inc., September 2005.



Insight on Business: Battle of the Portals

Class Discussion

- How many different kinds of portals are there?
- How do portals make money?
- Why has AOL been losing visitors since 2000?
- What are the strengths of the top four portals: Yahoo, Google, AOL, and MSN?
- Why did Google link up with AOL when AOL was losing audience share?

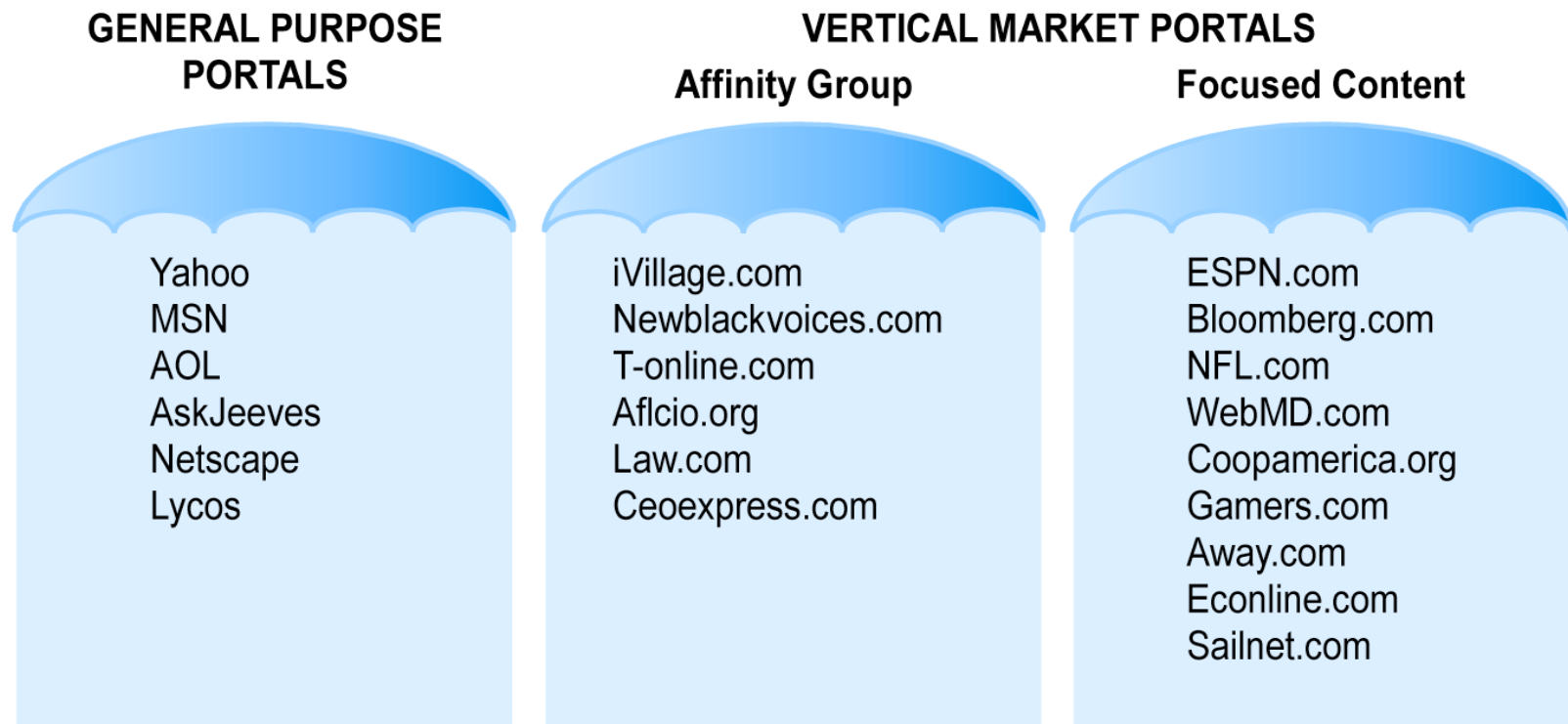


Types of Portals: General Purpose and Vertical Market

- General purpose portals: Attempt to attract a very large general audience and then retain it on-site by providing in-depth vertical content channels
- Vertical market portals: Attempt to attract highly focused, loyal audiences with a deep interest in either community (affinity group) or specialized content

Two General Types of Portals: General Purpose and Vertical Market Portals

Figure 13.5, Page 780



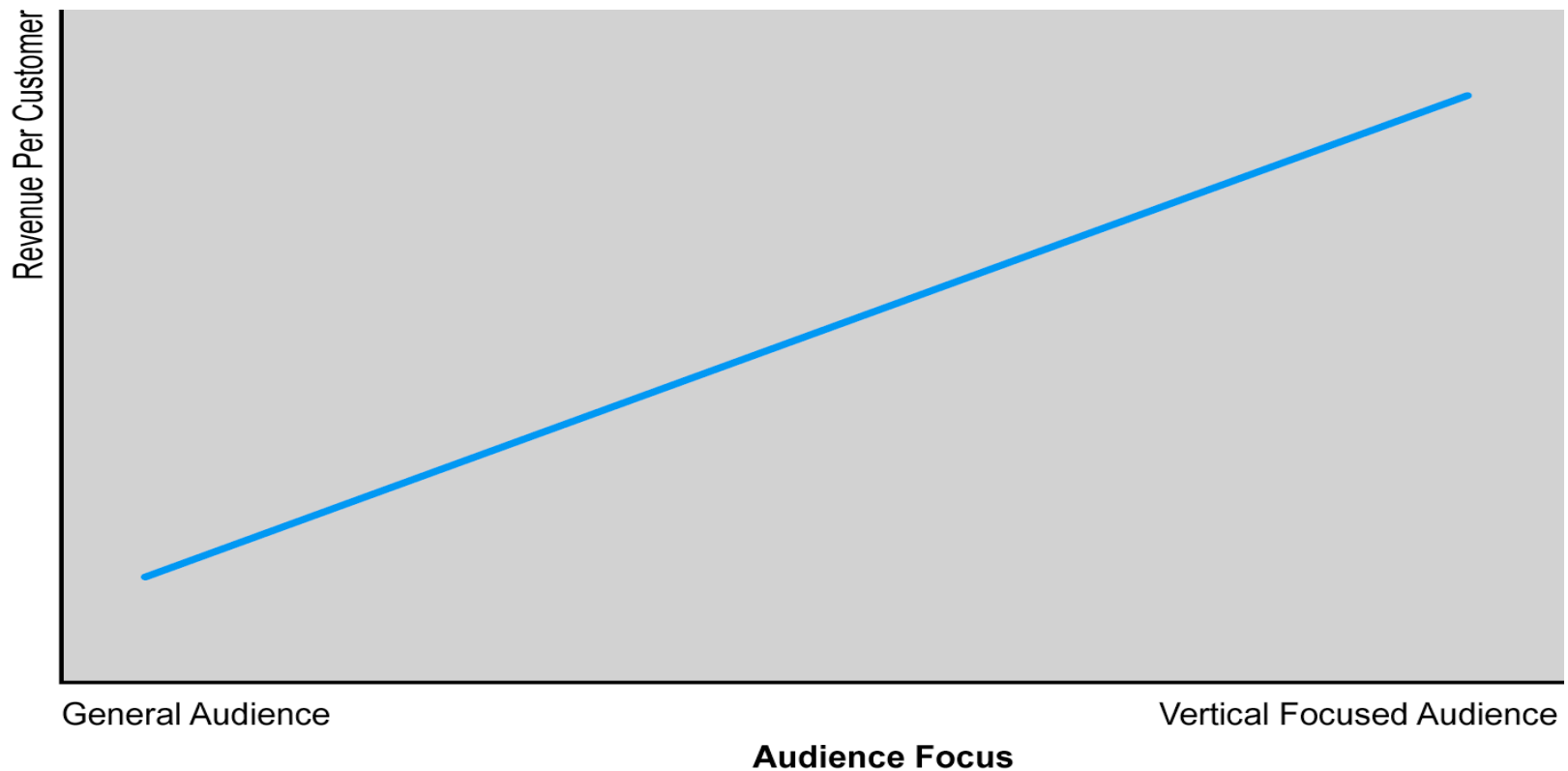


Portal Business Models

- Major portal revenue sources include:
 - ISP services (AOL, MSN)
 - General advertising revenue/tenancy deals
 - Commissions on sales
 - Subscription fees

Revenue per Customer and Market Focus

Figure 13.6, Page 782



E-commerce in Action: Yahoo! Inc.

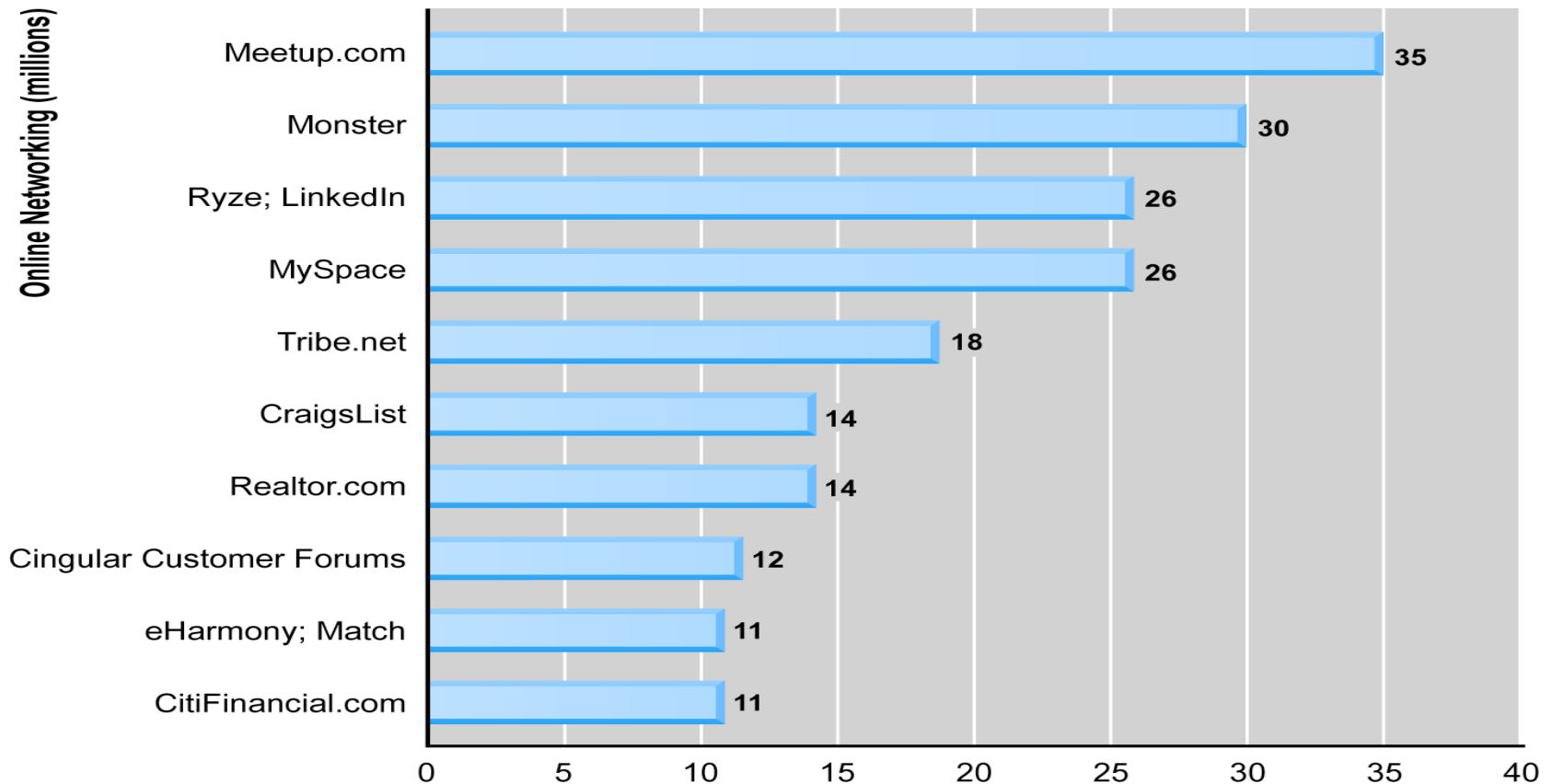
- Vision: Global Internet communications, commerce and media company
- Earns money from advertising, premium content sales, commissions and corporate services
- Recent financial performance: excellent, driven by advertising revenues
- 2003: Acquired Inktomi and Overture: return to search engine roots, and new emphasis on pay-for-placement search engine marketing
- Future prospects depend on matching Google on search and extending its lead on content

Online Communities

- Communities involve:
 - A group of people
 - Shared social interaction
 - Common ties among members
 - People who share an area for some period of time
- Communities do not necessarily have shared goal, purposes, or intentions
- Virtual community: an area online where people who share common ties can interact with one another
- Debate about relative merits of virtual communities versus ordinary communities

Where People Go Online to Network

Figure 13.8, Page 791




SOURCE: Based on data from Pew Internet & American Life Project, 2006; Borzo, 2004, authors' estimates.



Types of Online Communities and Their Business Models

- General communities: Offer members opportunities to interact with a general audience organized into general topics
- Practice communities: Offer members focused discussion groups, help and knowledge related to an area of shared practice
- Interest communities: Offer members focused discussion groups based on a shared interest in some specific subject
- Affinity communities: Offer members focused discussion and interaction with other people who share the same affinity (self or group identification)
- Sponsored communities: Online communities created by government, non-profit or for-profit organizations for purpose of pursuing organizational goals



Insight on Technology: Power to the People: Convening Technology for Face-to-Face Meetings

Class Discussion

- What is “convening software” and how does MeetUp.com work?
- How has MeetUp.com changed over the years?
- How does MeetUp differ from other online community sites?
- Do you think groups will pay for the service as charges rise?
- Why would venture capitalists back MeetUp.com



Commercially Sponsored Communities: Business Uses of Community

- Sponsored commercial communities can play an important role as customer relationship management tools
- Can extend an existing brand name
- Can gather customer feedback and suggestions