



E-commerce

business. technology. society.

Fifth Edition

Kenneth C. Laudon
Carol Guercio Traver



Chapter 11

Social Networks, Auctions, and Portals

Social Networks and Online Communities

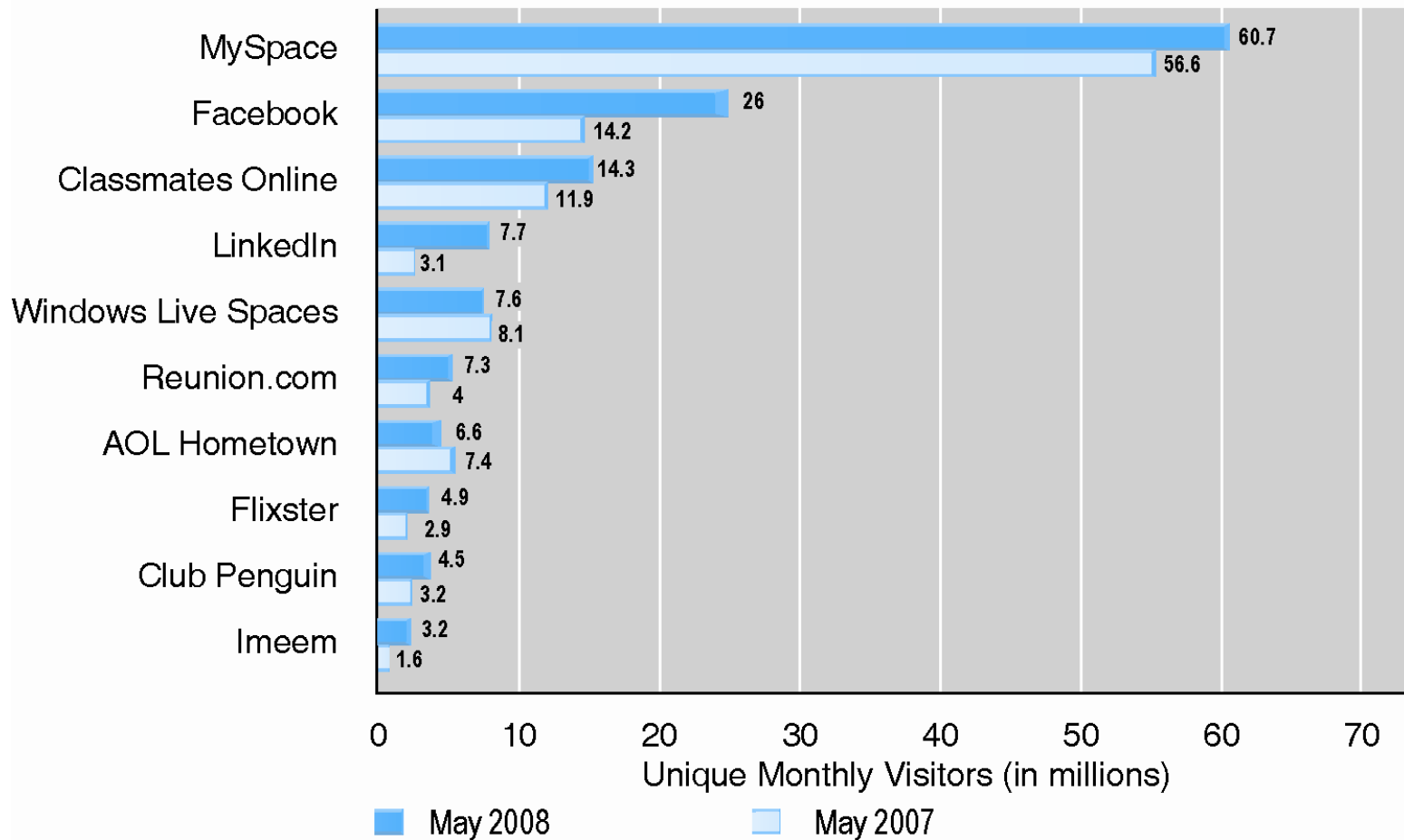
- Internet began as community building technology for scientists, researchers
- Early communities limited to bulletin boards, newsgroups
- 2002: Mobile Internet devices, blogs, sharing of rich media began new era of social networking
- Social networking one of most common Internet activities

What Is an Online Social Network?

- Area online where people who share common ties can interact with one
- Involve:
 - A group of people
 - Shared social interaction
 - Common ties among members
 - People who share an area for some period of time
- e.g. MySpace, Friendster, Flickr, Facebook
- Portals and social networks moving closer together as portals add social networking features and community sites add portal-like services

Top 10 Social Network Sites

Figure 11.1, Page 699



SOURCE: eMarketer, Inc., 2008; Hitwise, 2008

The Growth of Social Networks and Online Communities

- Top 10 social networks account for over 90% social networking activity
 - MySpace: 50% of all social networking activity
 - Users: Over 50% over 35, wealthy, with college degrees
- Unique visitors
 - MySpace: 60 million/month
 - Yahoo: 133 million/month
- Advertising revenue
 - Top 4 portals generate \$12 billion annually
 - Social networking sites: \$1.4 billion

Types of Social Networks And Their Business Models

- Early networking sites relied on subscriptions; today social networks rely primarily on advertising
- General communities:
 - Offer opportunities to interact with general audience organized into general topics
 - Advertising supported by selling ad space on pages and videos
- Practice networks:
 - Offer focused discussion groups, help and knowledge related to area of shared practice
 - May be profit or non-profit; rely on advertising or user donations

Types of Social Networks And Their Business Models (cont'd)

- Interest-based social networks:
 - Offer focused discussion groups based on shared interest in some specific subject
 - Usually advertising supported
- Affinity communities:
 - Offer focused discussion and interaction with other people who share same affinity (self or group identification)
 - Advertising and revenues from sales of products
- Sponsored communities:
 - Created by government, non-profit or for-profit organizations for purpose of pursuing organizational goals

Social Network Features and Technologies

- Profiles
- Friends network
- Network discovery
- Favorites
- E-mail
- Storage
- Instant messaging
- Message boards
- Online polling
- Chat
- Discussion groups
- Experts online
- Membership management tools

Online Auctions

- Online auction sites among the most popular consumer-to-consumer sites on the Internet
- eBay: 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

- Dynamic pricing
 - Airline tickets, coupons, college scholarships
 - Prices based on demand characteristics of customer and supply situation of seller
- Many types of dynamic pricing
 - Bundling
 - Trigger pricing
 - Utilization pricing
 - Personalization pricing

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

■ Auctions

- Type of dynamic pricing
- C2C auctions
 - Auction house an intermediary
 - \$25 billion gross revenue 2008
- B2C auctions
 - Business owns assets; often used for excess goods
 - \$19 billion gross revenue 2008
- Can be used to allocate, bundle resources
- Expected to grow 12% -18% annually between 2008 and 2012



Insight on Society

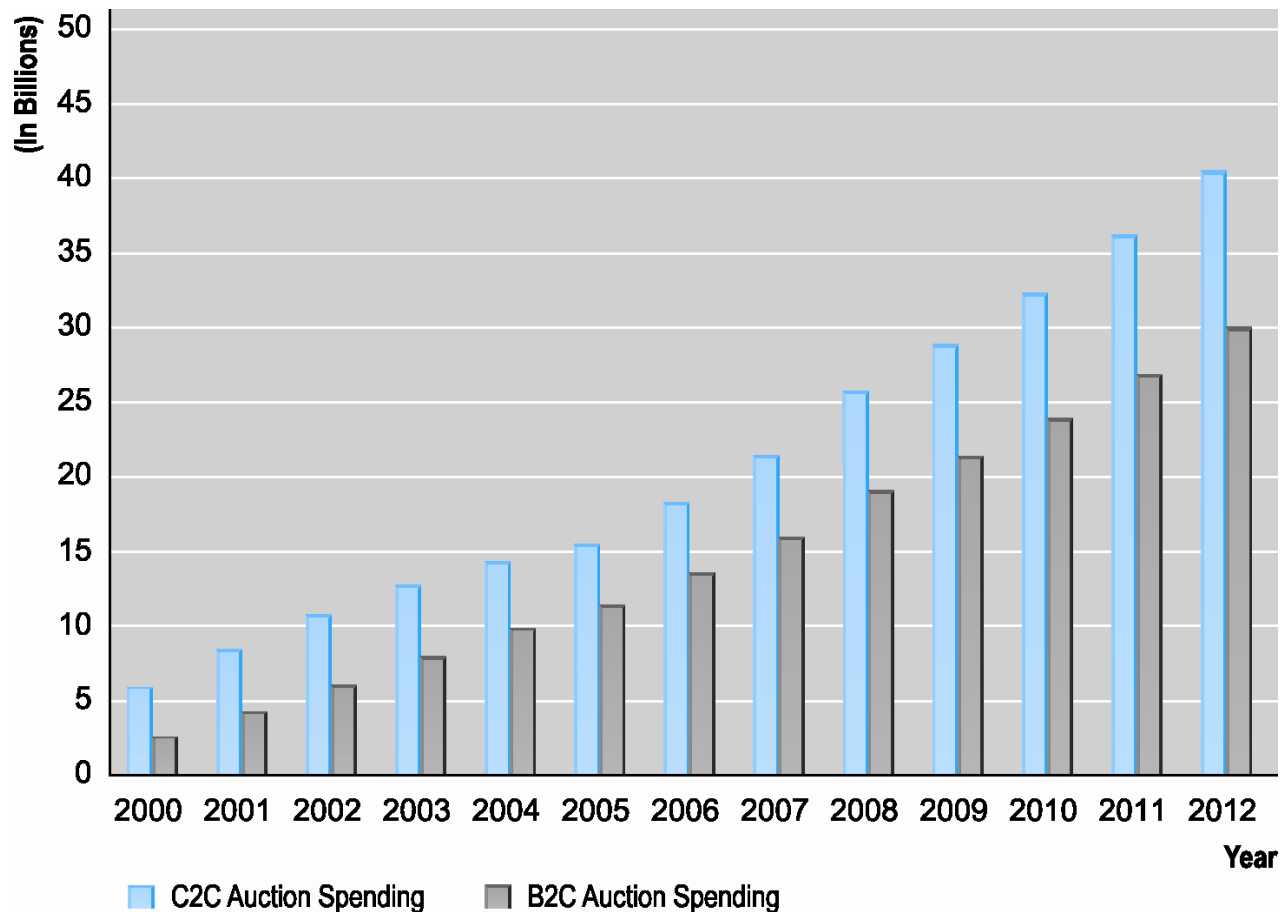
Dynamic Pricing: Is This Price Right?

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 Auction Revenues

Figure 11.3, Page 724



SOURCES: eMarketer, 2005; Jupiter Research, 2001; authors' estimates.

Benefits of Auctions

■ General

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

■ For market-makers

- No inventory, warehouse costs
- No fulfillment costs

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 different from traditional auctions
 - Last much longer (usually a week)
 - Variable number of bidders who come and go from auction arena
- Market power and bias in dynamically priced markets
 - Neutral: Number of buyers and sellers is few or equal
 - Seller bias: Few sellers and many buyers
 - Buyer bias: Many sellers and few buyers

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

■ Public vs. private information

- Prices bid may be kept secret
 - Bid rigging
- Open markets
 - Price matching

Bias in Dynamically Priced Markets

Figure 11.4, Page 729

		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 that displays starting price
- Clock ticks down price until buyer stops it

Types of Auctions (cont'd)

■ Dutch Internet auction:

- Public ascending price, multiple units
- Final price is lowest successful bid, which sets price for all higher bidders

■ 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

Class Exercise

- An Internet Dutch auction for 4 laser printers was held online yesterday. The following bids were received (all before the auction closing time at 4:00 PM). Who won at what price?

Bidding Time	Bidder	Price per unit	Quantity
11:00 AM	Jack	\$100	1
1:00 PM	Katrina	\$110	2
2:00 PM	Mike	\$110	2
3:50 PM	Jill	\$120	1

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

Seller and Consumer Behavior at Auctions

- Profit to seller: A 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 an important motivating factor in auctions

When Auction Markets Fail: Fraud and Abuse in Auctions

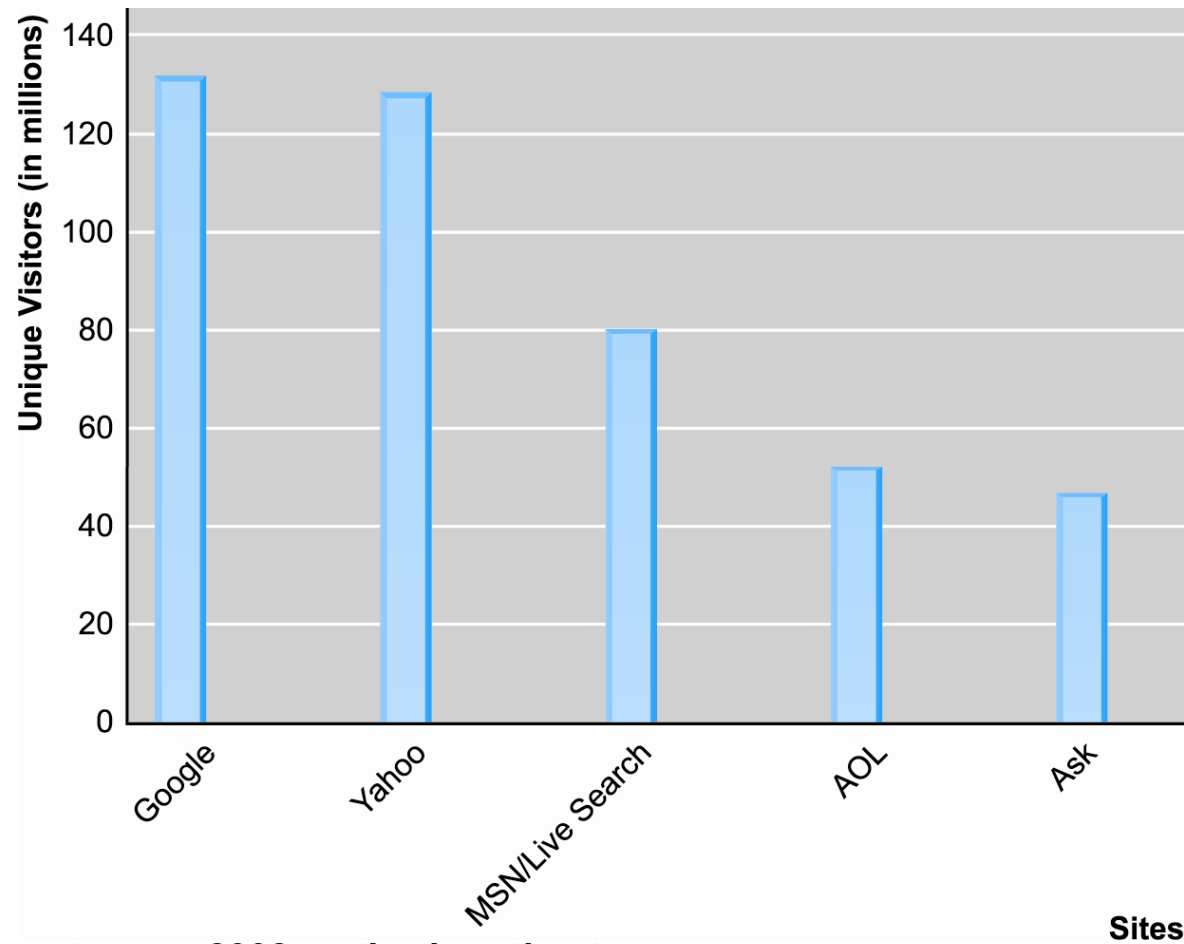
- Markets fail to produce socially desirable outcomes in four situations: information asymmetry, monopoly power, public goods, and externalities.
- Auction markets prone to fraud
 - Most common: Failure to deliver, failure to pay
- 2008 IC3 statistics:
 - 35.7% of Internet fraud complaints concerned online auctions; median lost: \$484

The Growth and Evolution of Portals

- Portals: most frequently visited sites on the Web
- Gateways to the 40 - 50 billion Web pages
- Most of top portals today began as search engines
- Today provide navigation of the Web, commerce, and content (own and others')
- Enterprise portals an important function within organizations

Top 5 Portal/Search Engine Sites in the United States

Figure 11.6, Page 743



SOURCE: Compete.com, 2008; author's estimates

Types of Portals: General Purpose and Vertical Market

■ General purpose portals:

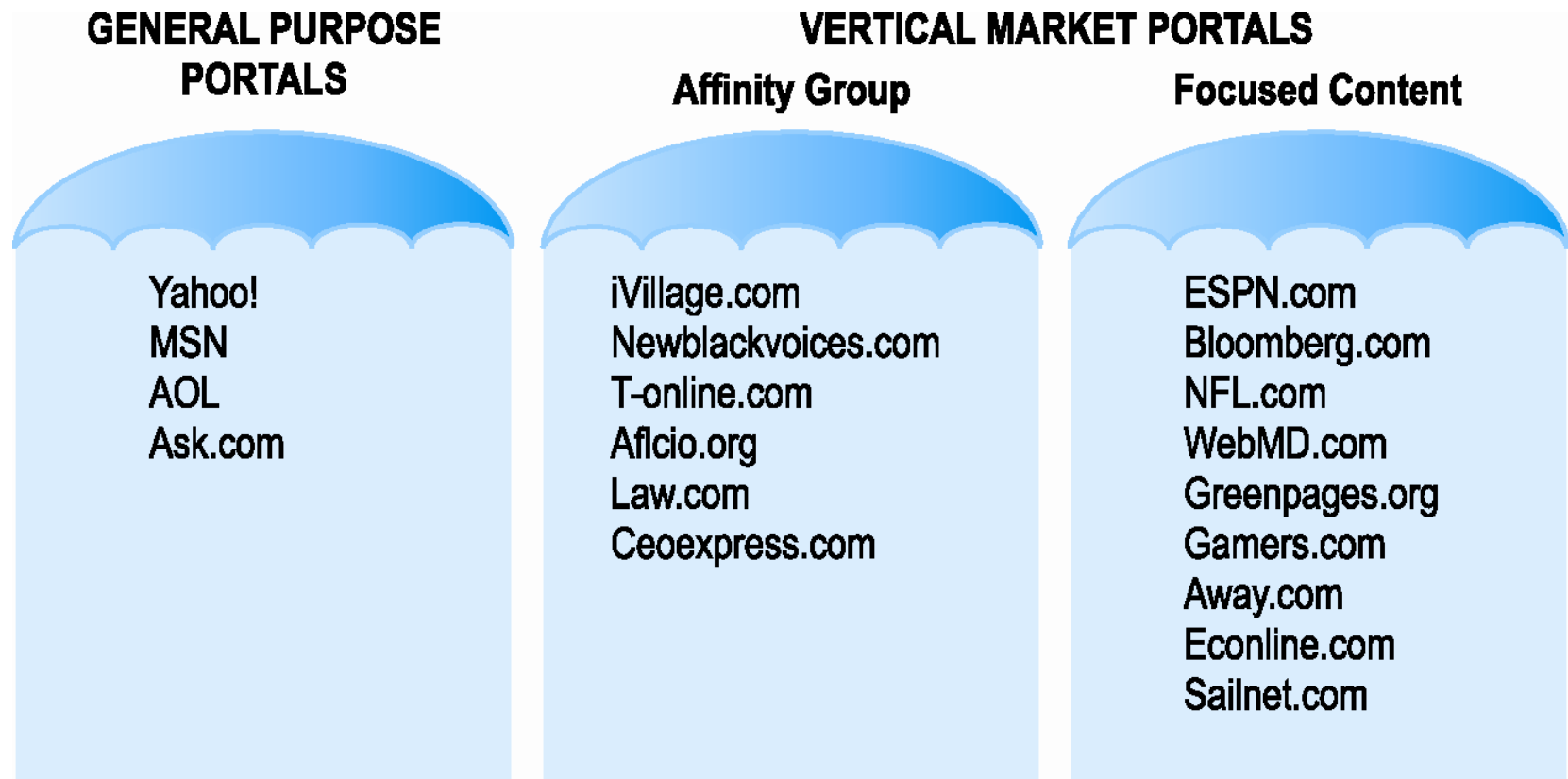
- Attempt to attract very large general audience and then retain it on-site by providing in-depth vertical content channels
- E.g. Yahoo!, MSN

■ Vertical market portals:

- Attempt to attract highly focused, loyal audiences with specific interest
 - Community (affinity group); e.g. iVillage.com
 - Focused content; e.g. ESPN.com

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

Figure 11.7, Page 747



Portal Business Models

- ISP services (AOL, MSN)
 - Provide Web access, e-mail for monthly fee
- General advertising revenue
 - Charge for impressions delivered
- Tenancy deals
 - Fixed charge for number of impressions, exclusive partnerships, “sole providers”
- Commissions on sales
 - Sales at site by independent providers
- Subscription fees
 - Charging for premium content

E-commerce in Action: Yahoo! Inc (skip)

- Vision: Global Internet communications, commerce and media company
- Business model: Earns money from advertising, premium content sales, commissions and corporate services
- Financial analysis: Revenues continue to grow; operating margins positive but falling
- Strategic analysis
 - Growth through acquisition
 - Competition: Google, Microsoft, Time Warner/AOL
 - Outsources technology
- Future prospects dim