

### Learning Objectives

- Describe the major types of auctions, their benefits and costs, and how they operate
- Understand when to use auctions in a business
- Recognize the potential for auction abuse and fraud
- Describe the major types of Internet portals
- Understand the business models of portals

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### Learning Objectives

- Explain the difference between a virtual community and a traditional community, and how an online community differs from a portal
- Describe the different types of online communities and their business models
- Understand the business value of communities

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### Auctions

- Auctions are markets in which prices are variable and based on the competition among participants who are buying or selling products and services
- Consumer-to-consumer auctions are most common in which the auction house is simply an intermediary market-maker

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### Price Models

- Dynamic pricing -- the price of a product is based a merchant's understanding of how much value the customer attaches to the product and their own desire to make a sale
- Fixed pricing -- one national price, everywhere, for everyone
- Trigger pricing -- used in m-commerce applications, adjusts prices based on the location of the consumer

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## Pricing Models

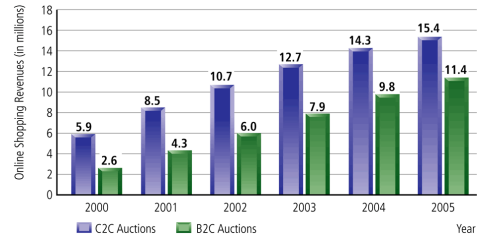
- Utilization pricing -- adjusts prices based on the utilization of the product
- Personalization pricing -- adjusts prices based on the merchant's estimate of how much the customer truly values the product

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## Projected Growth in Revenues From C2C Auctions

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## Leading Online Auction Sites

TABLE 13.1 LEADING ONLINE AUCTION SITES

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General	Specialized
<ul style="list-style-type: none"> <li>eBay.com</li> <li>Auctions.amazon.com</li> <li>Auctions.yahoo.com</li> <li>Auctions.msn.com</li> <li>Auctions.lycos.com</li> </ul>	<ul style="list-style-type: none"> <li>Ubid.com</li> <li>Bid4Assets.com</li> <li>AAANDS.com</li> </ul>
<ul style="list-style-type: none"> <li>The world market leader in auctions.</li> <li>General consumer auctions.</li> <li>General consumer auctions.</li> <li>A wide variety of different online auction categories.</li> <li>Outlet, specialty, and falling-prices auctions from a variety of merchants.</li> </ul>	<ul style="list-style-type: none"> <li>General merchandise.</li> <li>Liquidation of distressed assets.</li> <li>General consumer and specialty.</li> </ul>
<ul style="list-style-type: none"> <li>Auctions.cnet.com</li> <li>Racersauctions.com</li> <li>Philateliphantasies.com</li> <li>Teletrade.com</li> <li>Baseball-cards.com</li> <li>Oldandold.com</li> </ul>	<ul style="list-style-type: none"> <li>Computers, software, and electronics.</li> <li>Specialized site for automobile racing parts.</li> <li>Stamp site for professionals.</li> <li>Certified coins.</li> <li>Weekly auctions of baseball, football, basketball, and hockey cards and photos.</li> <li>Online auction service specializing in quality antiques.</li> </ul>

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## Benefits of Auctions

- Liquidity -- sellers can find willing buyers, and buyers can find sellers
- Price Discovery -- buyers and sellers can quickly and efficiently develop prices for items that are difficult to access, where the price depends on demand and supply, and where the product is rare
- Price Transparency -- allow everyone in the world to see the asking and bidding prices for items

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## Benefits of Auctions

- Market Efficiency -- auctions can, and often do, lead to reduced prices, and hence reduced profits for merchants, leading to an increase in consumer welfare
- Lower Transaction Costs -- online auctions can lower the cost of selling and purchasing products, benefiting both merchants and consumer

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## Benefits of Auctions

- Consumer Aggregation -- sellers benefit from large auction sites' ability to aggregate a large number of consumers who are motivated to purchase something in one marketplace
- Network Effects -- the larger an auction site becomes in terms of visitors and products for sale, the more valuable it becomes as a marketplace for everyone by providing liquidity and other benefits

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## Risks and Costs of Auctions

- **Delayed Consumption costs** – Internet auctions can go on for days, and shipping will take additional time
- **Monitoring Costs** – participation in auctions requires your time to monitor bidding
  - Watch lists permit the consumer to monitor specific auctions of interest
  - Proxy bidding allows the consumer to enter a maximum price and the auction automatically bids up to that maximum price in small increments

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## Risks and Costs of Auctions

- **Equipment Costs** -- Internet auctions require you to purchase a computer system, pay for Internet access, and learn a complex operating system
- **Trust Risks** -- online auctions are the single largest source of Internet fraud
- **Fulfillment Costs** -- buyers pays fulfillment costs of packing, shipping, and insurance, whereas at a physical store these costs are included in the retail price

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## Types and Examples of Auctions

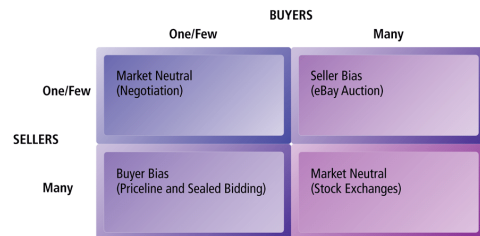
- **Traditional auctions**
  - Are short-lived
  - Have a fixed number of bidders, usually in the same room
- **Online Internet auctions**
  - Go on much longer (usually a week)
  - Have a variable number of bidders who come and go from the auction arena

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## Bias in Dynamic Priced Markets

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## Price Allocation Rules: Uniform vs. Discriminatory Pricing

- **Uniform pricing rule** – there are multiple winners and they all pay the same price
- **Discriminatory pricing** -- winners pay different amounts depending on what they bid

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## Public vs. Private Information

- **Bid rigging** in which bidders communicate prior to submitting their bids, and rig their bids to ensure that the lowest price is higher than it might otherwise be
- **Price matching**, where sellers agree informally or formally to set floor prices on auction items below which they will not sell

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# Types of Auctions

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AUCTION TYPE	MECHANISM	BIAS
Sealed bid market (B2B procurement—Arbia Commcontract eBay's Mercant.com)	Sealed bid auction. Requests for quote (RFQ). Winner is chosen from lowest bidder at acceptable quality levels.	Buyer bias: Multiple vendors competing against one another.
Vickrey auction (Private auction)	Sealed bid auction, single unit; highest bidder wins at the second highest bid price.	Seller bias: Single seller and multiple buyers competing against one another.
English auction ( eBay.com)	Public ascending price, single unit; highest bidder wins at a price just above the second highest bid. Buyers can stop bidding at each price, but return at higher prices.	Seller bias: Single seller and multiple buyers competing against one another.
Dutch traditional (Dutch Flower Market)	Public descending price auction, single unit; seller lowers price until a buyer takes the product.	Seller bias: Single seller and multiple buyers competing against one another.
Dutch Internet ( eBay.com Dutch aucteer)	Public ascending price, multiple unit. Buyers bid on quantity and price. Final bid price is lowest successful bid, which sets a uniform price for all higher bidders as well (uniform pricing rule).	Seller bias: Small number of sellers and many buyers.
Japanese auction (Private auction)	Public ascending price, single unit; highest bidder wins at a price just above second highest bid (reservation price) and buyers must bid at such price to stay in auction.	Seller bias: Single seller and multiple buyers competing against one another.
Yankee auction-Internet variation on Dutch auction)	Public ascending price, multiple unit. Buyers bid on quantity and price per unit. Bidders ranked on price per unit, and first winners pay their actual bid price (discriminatory pricing rule).	Seller bias: Single seller and multiple buyers competing against one another.
Reverse auction (FreeMarkets.com)	Public reverse English auction, descending price, single unit. Sellers bid on price to provide products or services, winning bid is the lowest price provider. Similar to sealed bid markets.	Buyer bias: Multiple sellers competing against one another.
Group buying (Buyers.gro)	Public reverse auction, descending price, multiple units. Buyers bid on price per unit and units. Group of sellers bid on price; winning bid is lowest-price provider.	Buyer bias: Multiple sellers competing against one another.
Name Your Own Price (Priceline.com)	Similar to a reverse auction except the price the consumer is willing to pay is fixed and the price offered is negotiable. Requires a commitment to purchase at the first offered price.	Buyer bias: Multiple sellers competing against one another for an individual's business.
Double auction (NASDAQ and stock markets)	Public bid ask negotiation system. All buyers bid. Sale consummated when participants agree on price and quantity.	Neutral: Multiple buyers and sellers competing against one another. Market bias: Trading operations (matchmakers).

NOTE: Public means all participants can observe prices offered.

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# Types of Auctions

- English auctions are the easiest to understand and the most common form of an auction on eBay.com
- Traditional Dutch auctions use a clock visible to all that displays the starting price. Every few seconds the clock ticks a lower price. When buyers want to buy at the displayed price they push a button to accept the the price

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# Types of Auctions

- Dutch Internet auctions are perfect for sellers with many identical items to sell. Sellers start by listing a minimum price, or starting bid for one item, and the number of items for sale. Bidders specify both a bid price and quantity they want to buy. Uniform price reigns: winning bidders pay the same price per item, which is the lowest successful bid.

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# A Multi-unit Dutch Internet Auction

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CLOSING AUCTION DATA					
Lot	34590				
Total Number of Units	10				
Description	IBM Thinkpad 600 Laptop				
Asking Price	\$500				
BIDDER	DATE	TIME	BID	QUANTITY	
pj2345	12/1/01	18:35	\$ 445	4	
kcl444	12/1/01	18:55	\$ 445	3	
jb911	12/1/01	19:05	\$ 410	4	
Viper1	12/1/01	19:10	\$ 410	2	
Chronos52	12/1/01	19:20	\$ 400	1	
RSF34	12/1/01	19:30	\$ 390	1	

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# Types of Auctions

- Name your price auctions were pioneered by Priceline. Seller buys a block of items at a discount and sells them at a reduced retail price or matching its inventory to bidders. Users specify what they are willing to pay for an item.

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# Priceline Name Your Own Price Offerings

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SERVICE/PRODUCT	DESCRIPTION
Airline seats	Brand-name carriers bid for individual consumer business. Perishable items that airlines are motivated to sell at the last minute.
Hotel rooms	Brand-name hotels bid for consumer business. Perishable service that hotels are motivated to sell on a last-minute basis.
Rental cars	Brand-name rental companies bid for consumer business. Perishable service that rental companies are motivated to sell on a last-minute basis.
Long distance telephone service	Fixed-cost, excess-capacity service that owners are willing to sell on spot markets.
New cars	High-inventory finance costs motivate new car dealers to sell inventory.
Home finance	Unused funds available for long-term commitment motivates banks to compete on a spot market.

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## Type of Auctions

- 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 buying as prices fall

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## Types of Auctions

- Professional service auctions is a sealed-bid, dynamic-priced market for freelance professional services from legal and marketing to graphics design and programming services
- Auction aggregators use computer programs to search thousands of Web auctions sites, scouring up information on products, bids, auction duration, and bid increments

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## Leading Auction Aggregators

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TABLE 13.5 LEADING AUCTION AGGREGATORS	
Auctionsonthetnet.com	Site that permits searches for specific types of auctions as well as specific products; monitors over 400 auction sites. Advertiser-supported.
BidXS.com	Meta-auction site that aggregates products at auction from over 300 auction sites. Commission-supported.
Bidfind.com	Aggregator of dynamic-priced sites and products. Commission-supported.
AuctionWatch.com	Aggregator of online auction sites. Services supplier to sellers. Commission- and services-supported. 500,000 registered users, 2 million auction images served per day.
Internetauctionlist.com	Aggregator of online auctions and auction sites. Searches 2,640 auction sites each day.

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## Types of Auctions

- Auction solution providers for businesses allow businesses to transfer product description, price, availability, and quality information to each auction site

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## Solutions for Listing in Multiple Auctions & Holdings

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TABLE 13.6 SOLUTIONS FOR LISTING IN MULTIPLE AUCTIONS AND HOLDING AUCTIONS	
SOLUTION PROVIDERS	SERVICES
AuctionWatch.com	Auction management and coordination on multiple sites. Integrates with ERP systems.
Auctionworks.com	Web-based auction management platform, with storefronts, and toolset for sales monitoring.
ChannelAdvisor.com	Branded marketplace for overstocked goods; integrates with existing databases.
FairMarket.com	Software for hosting auctions on your site, with complete management and pricing support.
Andale.com	Integrated suite of tools for coordinating auctions on multiple sites.

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## Factors to Consider When Choosing Auctions

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TABLE 13.7 FACTORS TO CONSIDER WHEN CHOOSING AUCTIONS	
CONSIDERATIONS	DESCRIPTION
Type of product	Rare, unique, commodity, perishable
Stage of product life cycle	Early, mature, late
Channel-management issues	Conflict with retail distributors; differentiation
Type of auction	Seller vs. buyer bias
Initial pricing	Low vs. high
Bid increment amounts	Low vs. high
Auction length	Short vs. long
Number of items	Single vs. multiple
Price-allocation rule	Uniform vs. discriminatory
Information sharing	Closed vs. open bidding

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## Factors to Consider

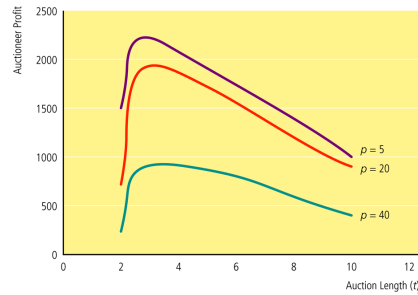
- Type of Product
- Product Life Cycle
- Channel Management
- Type of Auction
- Initial Pricing
- Auction Length
- Number of Items
- Price Allocation Rules
- Close vs. Open Bidding

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## Auction Profits

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## eBay's List of Auction Frauds

Page 751, Table 13.8

eBAY'S LIST OF AUCTION FRAUDS	
TYPE OF FRAUD	DESCRIPTION
<b>Feedback Offenses</b>	
Shill feedback, defensive	Using secondary eBay IDs or other eBay members to inflate seller ratings.
Shill feedback, offensive	Using secondary eBay IDs or other eBay members to deflate seller ratings. (Feedback bombs)
Feedback extortion	Threatening negative feedback in return for a benefit.
<b>Buying Offenses</b>	
Transaction interference	E-mailing buyers to warn them away from a seller.
Bid manipulation (bribe/sock)	Using the retract option to make high bids, discovering the maximum bid of current high bidder, then retracting bid.
Nonpayment after winning	Blocking legitimate buyers by bidding high, then not paying.
<b>Selling Offenses</b>	
Shill bidding	Using secondary user IDs or other eBay members to artificially raise the price of an item.
Transaction nonperformance	Accepting payment and failing to deliver.
Reselling seller	Refusing payment, failure to deliver after a successful auction.
Fee avoidance	Use of a variety of mechanisms for avoiding paying eBay listing fees.
<b>Contact Information/Identity Offenses</b>	
Misrepresentation of identity	Claiming to be an eBay employee, representing oneself as another eBay user, false contact information.
Disabled e-mail addresses	Providing false contact information.
<b>Miscellaneous Offenses</b>	
Interference with eBay site	Using any software program that would interfere with eBay operations.
Bid siphoning product	E-mailing another seller's bidders and offering the same for less.
Sending spam	Sending unsolicited offers to bidders.

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## E-commerce Portals

- Portals are the most frequently visited sites on the Web
- Web portal sites are gateways to more than four billion Web pages
- Top portal sites include
  - AOL
  - Yahoo
  - MSN

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## Portal Services

Page 753, Table 13.9

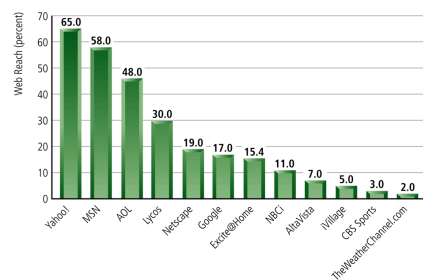
PORTAL SERVICES	
SERVICE	DESCRIPTION
Navigation	Search engine access to billions of Web pages and Web content
Commerce	Sales from the site directly; sales by third parties through advertising
Content	Information and knowledge

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## Top Portal Sites in the United States

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## Types of Portals

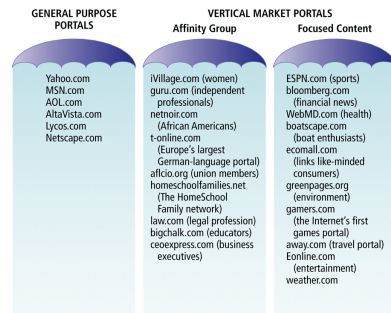
- General purpose portals attempt to attract a very large audience and then retain the audience on-site by providing in-depth vertical content channels
- Vertical market portals attempt to attract highly focused, loyal audiences with a deep interest either in community or specialized content
- Affinity groups are statistical aggregates of people that self-identify with one another to some material extent is their attitudes, value, beliefs, and behaviors

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## Two General Types of Portals

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## Typical Portal Revenue Sources

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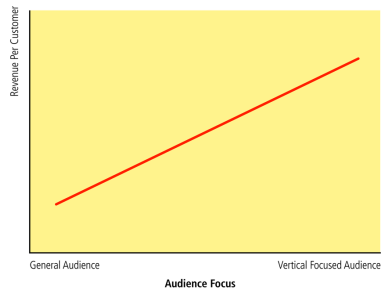
PORTAL REVENUE SOURCE	DESCRIPTION
ISP services	Providing Web access and e-mail services for a monthly fee.
General advertising	Charging for impressions delivered.
Tenancy deals	Fixed charge for guaranteed number of impressions, exclusive partnerships, "sole providers."
Commissions on sales	Revenue based on sales at the site by independent providers.
Subscription fees	Charging for premium content.

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## Revenue Per Customer and Market Focus

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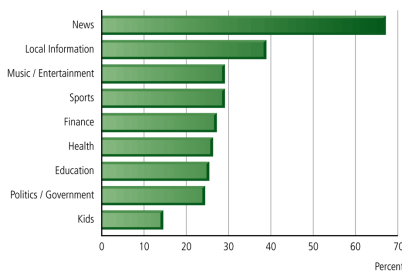


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## The Percentage of Online Consumers Who Use Portals

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## Online E-commerce 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

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## Online E-commerce Communities

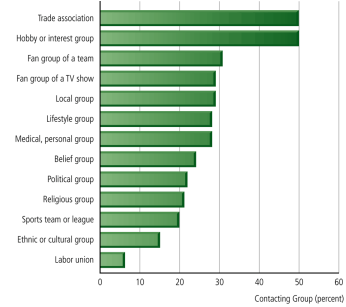
- Virtual community is an area online where people who share common ties can interact with one another
- "...cultural aggregations that emerge when enough people bump into each other often enough in cyberspace. It is a group of people who may or may not meet one another face to face, and who exchange words and ideas through mediation of computer bulletin boards and networks...We do everything that people when people get together, but we do it all with words on computer screens, leaving our bodies behind"

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## The Groups Cybergroupies Belong To

Page 765,  
Figure 13.8



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## Types of Online Communities

- Different sponsors or members
  - intra-firm communities or B2E
  - inter-organizational or B2B communities
  - people to people (P2P) communities

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## Types of Online Communities

- General communities offer members opportunities to interact with a general audience organized into general topics
- Practice communities offer members focused discussion groups, help, information, and knowledge relating to an area of shared practice
- Interest communities offer members focused discussion groups based on a shared interest in some specific subject, such as boats, horses, health, skiing, and thousands of other topics

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## Online Commercial & NonCommercial Communities

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TABLE 13.11 TYPES OF ONLINE COMMERCIAL AND NONCOMMERCIAL COMMUNITIES	
TYPE OF COMMUNITY	DESCRIPTION
General	Online gathering place for general topical discussions and communication
Practice	Community of practitioners, creators of artifacts such as computer code or music.
Interest	Community built around a common interest, e.g., games, sports, music, politics, health, finance, foreign affairs, lifestyle.
Affinity	Community of members who self-identify with a demographic, or geographic category, e.g., women, African Americans, Arab Americans.
Sponsored	Community created by commercial, government, and nonprofit organizations for a variety of purposes; any site that uses community techniques to attract visitors, customers, and/or generate revenue.

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## Types of Online Communities

- Affinity communities offer members focused discussions and interaction with other people who share the same affinity. Affinity refers to self- and group identification
- Sponsored communities are online communities created by government, nonprofit, or for-profit organizations for the purpose of pursuing organizational goals -- often commercial goals

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# Community Features and Technology

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TABLE 13.12 COMMUNITY FEATURES AND TECHNOLOGIES	
FEATURE	DESCRIPTION
Content	Focus articles on topics of interest.
E-mail	E-mail addresses and correspondence directed to individuals who self-identify with specific topics.
Instant messaging	Immediate one-to-one contact with friends through the community facility.
Message boards	Posting of messages to the entire community and experts online.
Chat	Online immediate group discussion; Internet relay chat (IRC).
Discussion groups	Discussion groups organized by topic.
Experts online	Certified experts in selected areas respond to queries.
Web page creation	Personal and group Web pages.

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# Economic Benefits of Commercially Sponsored Communities

Page 773, Table 13.13

TABLE 13.13 ECONOMIC BENEFITS OF COMMERCIALY SPONSORED COMMUNITIES	
BENEFIT	DESCRIPTION
Customer relationship management	Using the community to track customer contacts with the firm
Brand extension	Developing an online presence for an offline brand.
Customer loyalty	Bringing intangible benefits to the customer through the community site.
Product innovation	Using feedback from the community to create new products.
Market research	Receiving feedback from customers; focused mailing lists.
Product information	Warranty, performance, limitation, and best practice use of products.
Supply chain management	Developing a community of suppliers to more closely coordinate their activities, and inform them of firm future plans and requirements.

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