CHAPTER 6

ONLINE AUCTIONS, VIRTUAL COMMUNITIES, AND WEB PORTALS

LEARNING OBJECTIVES

In this chapter, you will learn about:

- Origins and key characteristics of the seven major auction types
- Strategies for Web auction sites and auction-related businesses
- Virtual communities and Web portals

INTRODUCTION

In 1995, Pierre Omidyar was working as a Web programmer for General Magic, Inc. and, in his spare time, operating a small personal Web site that provided, among other things, updates on the Ebola virus. Omidyar decided that the Web provided a good environment for bringing auction buyers and sellers together, so he built a small auction function into his site and called it AuctionWeb. Interest in the site's auctions grew so rapidly that within a year, Omidyar had quit his job to devote his full energies to the Web auction business he had created. By the end of its second year in operation, Omidyar's Web site, which he had renamed **eBay**, had auctioned over $95 million worth of goods and was showing a small profit.

Inspired by this success, Omidyar obtained $5 million in funding from Benchmark Capital in 1997. Benchmark also helped him recruit a top-notch management team for the business, including current CEO Meg Whitman. In September 1998, eBay offered its stock to the public and raised $63 million. Like

many Internet companies, eBay experienced extremely rapid growth. Unlike many of the new dot-com companies of the time, eBay was profitable from its inception; its net income in 1998 was over $2 million. Because of its high growth rate and solid profitability, eBay was able to return to the stock market and raise an additional $765 million in April 1999. In just three years, eBay established itself as the dominant Web site for general consumer auctions with over 2 million registered buyers and sellers.

Today, eBay has more than 150 million registered users and hosts auctions for goods valued at nearly $40 billion each year. The company earns an annual net income of nearly a billion dollars from its auctions and related businesses, and that net income is expected to continue to grow rapidly during the next few years.

Because eBay was one of the first auction Web sites and because it pursued an aggressive promotion strategy, it has become the first-choice site for many people who want to participate in auctions. Both buyers and sellers benefit from a large marketplace such as the one eBay created. eBay's early advantage in the online auction business will be very difficult for competitors to overcome.

AUCTION OVERVIEW

In Chapters 3 and 4, you learned how businesses are using the Web to create online identities, reach customers, and sell to them. In Chapter 5, you learned how businesses are using the Web to purchase goods and work with their suppliers more effectively. In all three of these chapters, the focus was on how companies can use the Web to improve the things that they have been doing for years: buying and selling. In this chapter, you will learn how companies are using the Web to do things that they have never done before. These new things include running auctions, creating virtual communities, and operating Web portals.

In many ways, online auctions provide a business opportunity that is perfect for the Web. An auction site can charge both buyers and sellers to participate, and it can sell advertising on its pages. People interested in trading specific items can form a market segment that advertisers will pay extra to reach. Thus, the same kind of targeted advertising opportunities that search engine sites generate with their results pages are available to advertisers on auction sites. This combination of revenue-generating characteristics makes it relatively easy to develop online auctions that yield profits early in the life of the project.

One of the Internet's strengths is that it can bring together people who share narrow interests but are geographically dispersed. Online auctions can capitalize on that ability by either catering to a narrow interest or providing a general auction site that has sections devoted to specific interests.

Origins of Auctions

The earliest written records of auctions are from Babylon and date from 500 BC. In those auctions, men bid against each other for the women they wished to marry. Roman soldiers used auctions to liquidate the property they took from their vanquished foes. In AD 193, the Praetorian Guard auctioned off the entire Roman Empire after killing the Emperor Pertinax. In later years, Buddhist temples held auctions to sell off the possessions of deceased monks.

Auctions became common activities in 17th-century England, where taverns held regular auctions of art and furniture. The 18th century saw the birth of two British auction houses—**Sotheby's** in 1744 and **Christie's** in 1766—that continue to be major auction firms today. The British settlers of the colonies that would become the United States brought auctions with them. Colonial auctions were used to sell farm equipment, animals, tobacco, and, sad to say, human beings.

In an auction, a seller offers an item or items for sale, but does not establish a price. This is called "putting an item up for bid" or "putting an item on the (auction) block." Potential buyers are given information about the item or some opportunity to examine it; they then offer **bids**, which are the prices they are willing to pay for the item. The potential buyers, or **bidders**, each have developed **private valuations**, or amounts they are willing to pay for the item. The whole auction process is managed by an **auctioneer**. In some auctions, people employed by the seller or the auctioneer can make bids on behalf of the seller. These people are called **shill bidders**. Shill bidders can artificially inflate the price of an item and may be prohibited from bidding by the rules of a particular auction.

English Auctions

Many different kinds of auctions exist. Most people who have attended or seen an auction on television have experienced only one type of auction, the **English auction**, in which bidders publicly announce their successive higher bids until no higher bid is forthcoming. At that point, the auctioneer pronounces the item sold to the highest bidder at that bidder's price. This type of auction is also called an **ascending-price auction**. An English auction is sometimes called an **open auction** (or **open-outcry auction**) because the bids are publicly announced; however, there are other types of auctions that use publicly announced bids that are also called open auctions.

In some cases, an English auction has a minimum bid, or reserve price. A **minimum bid** is the price at which an auction begins. If no bidders are willing to pay that price, the item is removed from the auction and not sold. In some auctions, a minimum bid is not announced, but sellers can establish a minimum acceptable price, called a **reserve price**, or simply **reserve**. If the reserve price is not exceeded, the item is withdrawn from the auction and not sold.

English auctions that offer multiple units of an item for sale and allow bidders to specify the quantity they want to buy are called **Yankee auctions**. When the bidding concludes in

a Yankee auction, the highest bidder is allotted the quantity he or she bid. If items remain after satisfying the highest bidder, those remaining items are allocated to successive lower (next-highest) bidders until all items are distributed. Although all successful bidders (except possibly the lowest successful bidder) receive the quantity of items on which they bid, they only pay the price bid by the *lowest* successful bidder.

To understand Yankee auctions better, consider this example. A seller places nine items up for bid. When the bidders stop increasing their bids, the successful bidders include: the highest bidder, who bid $85, quantity five; the second-highest bidder, who bid $83, quantity three; and the third-highest bidder, who bid $81, quantity four. All three of the successful bidders pay $81 per item, but the highest bidder receives five items, the second-highest bidder receives three items, and the third-highest bidder receives the one remaining item, despite having bid for a quantity of four, because only one is left after satisfying the quantity bids of the higher bidders.

English auctions have drawbacks for both sellers and bidders. Because the winning bidder is only required to bid a small amount more than the next-highest bidder, winning bidders tend not to bid their full private valuations, which prevents sellers from obtaining the maximum possible price. Bidders risk becoming caught up in the excitement of competitive bidding and then bidding more than their private valuations. This psychological phenomenon, called the **winner's curse**, has been extensively documented by William Thaler and other behavioral economists.

Dutch Auctions

The **Dutch auction** is a form of open auction in which bidding starts at a high price and drops until a bidder accepts the price. Because the price drops until a bidder claims the item, Dutch auctions are also called **descending-price auctions**. Farmers' cooperatives in the Netherlands use this type of auction to sell perishable goods such as produce and flowers, which is how it came to be known as a "Dutch" auction.

In most Dutch auctions, the seller offers a number of similar items for sale. One common implementation of a Dutch auction uses a clock that drops the price with each tick. The first bidder to call out "stop," which stops the clock, becomes the winning bidder. The winning bidder can take all or any part of the auctioned items at that price. If any items remain, the clock is restarted and continues to run until all the items are taken by successive lower bidders. A Dutch auction is often better for the seller because the bidder with the highest private valuation will not let the bid drop much below that valuation for fear of losing the item to another bidder. Dutch auctions are particularly good for moving large numbers of commodity items quickly. A few online stores have offered Dutch auctions from time to time. For several years, **Coldwater Creek** used Dutch auctions to sell closeout items on its site, shown in Figure 6-1.

Most online retailers who have tried Dutch auctions have found that they do not increase sales or generate interest in the products well enough to justify the costs of operating the auction. They also have found that their customers are confused by sites that include a Dutch auction as an alternative to regular sales of closeout or marked-down items. This does not mean that Dutch auctions are never useful. In 2004, Google used a Dutch auction to sell its stock to investors in its initial public offering. The financial community considered this use of a Dutch auction to be highly innovative and very successful.

FIGURE 6-1 Coldwater Creek Dutch auction of closeout merchandise

First-Price Sealed-Bid Auctions

In **sealed-bid auctions**, bidders submit their bids independently and are usually prohibited from sharing information with each other. In a **first-price sealed-bid auction**, the highest bidder wins. If multiple items are auctioned, successive lower (next-highest) bidders are awarded the remaining items at the prices they bid.

Second-Price Sealed-Bid Auctions

The **second-price sealed-bid auction** is the same as the first-price sealed-bid auction except that the highest bidder is awarded the item at the price bid by the *second*-highest bidder. At first glance, one might wonder why a seller would even consider such an auction because it gives the item to the winning bidder at a lower price. William Vickrey won the **1996 Nobel Prize in Economics** for his studies of the properties of this auction type. He concluded that it yields higher returns for the seller, encourages all bidders to bid the amounts of their private valuations, and reduces the tendency for bidders to collude. Because the winning bidder is protected from an erroneously high bid, all bidders tend to bid higher than they would in a first-price sealed-bid auction. Second-price sealed-bid auctions are commonly called **Vickrey auctions**.

Open-Outcry Double Auctions

The **Chicago Board of Trade** conducts **open-outcry double auctions** of commodity futures and stock options. The buy and sell offers are shouted by traders standing in a small area

on the exchange floor called a trading pit. Each commodity or stock option is traded in its own pit. The action in a trading pit can become quite frenzied as 20 or 30 traders shout offers aloud.

Double auctions, either sealed-bid or open-outcry, work well only for items of known quality, such as securities or graded agricultural products, that are regularly traded in large quantities. Such items can be auctioned without bidders inspecting the items before placing their bids.

Sealed-Bid Double Auctions

In a **double auction**, buyers and sellers each submit combined price-quantity bids to an auctioneer. The auctioneer matches the sellers' offers (starting with the lowest price and then going up) to the buyers' offers (starting with the highest price and then going down) until all the quantities offered for sale are sold to buyers. Double auctions can be operated in either sealed-bid or open-outcry formats. The **New York Stock Exchange** conducts sealed-bid double auctions of stocks and bonds in which the auctioneer, called a specialist, manages the market for a particular stock or bond issue. The specialist company must use its own funds, when necessary, to maintain a stable market in the specific security it manages.

Reverse (Seller-Bid) Auctions

In a **reverse auction** (also called a **seller-bid** auction), multiple sellers submit price bids to an auctioneer who represents a single buyer. The bids are for a given amount of a specific item that the buyer wants to purchase. The prices go down as the bidding continues until no seller is willing to bid lower. Reverse auctions are used by consumers, but the vast majority of these auctions (and by far the largest portion of the dollar volume of these auctions) involves businesses that are both buyers and sellers. In many business reverse auctions, the buyer acts as auctioneer and screens sellers before they can participate. You will learn more about specific implementations of reverse auctions, both consumer and business, later in this chapter.

The seven auction types described in this section are the most commonly used in business today. Figure 6-2 summarizes the key characteristics of each of these seven major auction types.

Auction type	Key characteristics
English auction	Starting from a low price, bidding increases until no bidder is willing to bid higher.
Dutch auction	Starting from a high price, bidding automatically decreases until the bidder accepts the price.
First-price sealed-bid auction	Secret bidding process; the highest bidder pays the amount of the highest bid.
Second-price sealed-bid auction (Vickrey auction)	Secret bidding process; the highest bidder pays the amount of the *second*-highest bid.
Double auction (open-outcry)	Buyers and sellers declare combined price-quantity bids. The auctioneer matches seller offers (lowest to highest) with buyer offers (highest to lowest). Buyers and sellers can modify bids based on knowledge gained from other bids.
Double auction (sealed-bid)	Buyers and sellers declare combined price-quantity bids. The auctioneer (specialist) matches seller offers (lowest to highest) with buyer offers (highest to lowest). Buyers and sellers cannot modify their bids.
Reverse auction (seller-bid)	Multiple sellers submit price bids to an auctioneer that represents a single buyer. The bids are for a given amount of a specific item that the buyer wants to purchase. Prices go down as the bidding continues until no seller is willing to bid lower.

FIGURE 6-2 Key characteristics of seven major auction types

ONLINE AUCTIONS AND RELATED BUSINESSES

Online auctions are one of the fastest growing segments of online business today. Millions of people buy and sell all types of goods on consumer auction sites each year. Although the online auction business is changing rapidly as it grows, three broad categories of auction Web sites have emerged: general consumer auctions, specialty consumer auctions, and business-to-business auctions. Some industry analysts consider the two types of consumer auctions to be business-to-consumer electronic commerce. Other analysts believe that a more appropriate term for the electronic commerce that occurs in general consumer auctions is consumer-to-consumer or even **consumer-to-business** (because the bidders at a general consumer auction might be businesses). Their argument is that many sellers who participate in general consumer auctions are not really businesses; they are ordinary people who use these auctions to sell personal items instead of holding a garage

sale, for example. Whether you prefer to think of online auctions as business-to-consumer, consumer-to-consumer, or consumer-to-business, the largest number of transactions occurs on general consumer auction sites.

General Consumer Auctions

The most successful consumer auction Web site today (by far) is **eBay**, the company described in the introduction to this chapter. The eBay home page, which appears in Figure 6-3, includes links to categories of items. Alternatively, a potential bidder can use the search box feature to find a specific item by entering descriptive terms. The bottom of the page includes a link to the **third-party assurance provider TRUSTe**. Organizations such as TRUSTe provide assurance that the privacy policies of the Web sites meet certain standards.

Sellers and buyers must register with eBay and agree to the site's basic terms of doing business. Sellers pay eBay a listing fee and a sliding percentage of the final selling price. Buyers pay nothing to eBay. In addition to paying the basic fees, sellers can choose from a variety of enhanced and extra-cost services, including having their auctions listed in boldface type and featured in lists of preferred auctions.

In an attempt to address buyer concerns about seller reliability, eBay instituted a rating system. Buyers can submit ratings of sellers after doing business with them. These ratings are converted into graphics that appear with the seller's nickname in each auction in which that seller participates. Although this system is not without flaws, many eBay bidders feel that it affords them some level of protection from unscrupulous sellers. The converse is true also; sellers rate buyers, which provides sellers some protection from unscrupulous buyers.

Although eBay does not release any statistics about buyer and seller frauds, most industry observers agree that sellers face larger potential losses than buyers. Sellers' greatest risks are from buyers who use stolen credit card numbers or who place the winning bid but never contact the seller to conclude the transaction. Buyers' risks include sellers who never deliver or who misrepresent their merchandise. You will learn about ways that sellers and buyers can protect themselves later in this chapter.

The most common format used on eBay is a computerized version of the English auction. The eBay English auction allows the seller to set a reserve price. In eBay English auctions, the bidders are listed, but the bid amounts are not disclosed until after the auction is over. This is a slight variation on the in-person English auction, but because eBay always shows a continually updated high bid amount, a bidder who monitors the auction can see the bidding pattern as it occurs. The main difference between eBay and a live English auction is that bidders do not know who placed which bid until the auction is over. The eBay English auction also allows sellers to specify that an auction be made private. In an eBay private auction, the site never discloses bidders' identities and the prices they bid. At the conclusion of the auction, eBay notifies only the seller and the highest bidder. Another auction type offered by eBay is an increasing-price format for multiple-item auctions that eBay calls a Dutch auction. However, eBay auctions in this format are not true Dutch auctions; they are considered Yankee auctions.

In either type of eBay auction, bidders must constantly monitor the bidding activity. All eBay auctions have a **minimum bid increment**, the amount by which one bid must exceed the previous bid, which is about 3 percent of the bid amount. To make bidding

FIGURE 6-3 eBay home page

easier, eBay allows bidders to make a proxy bid. In a **proxy bid**, the bidder specifies a maximum bid. If that maximum bid exceeds the current bid, the eBay site automatically enters a bid that is one minimum bid increment higher than the current bid. As new bidders enter the auction, the eBay site software continually enters higher bids for all bidders who

placed proxy bids. Although this feature is designed to make bidding require less bidder attention, if a number of bidders enter proxy bids on one item, the bidding rises rapidly to the highest proxy bid offered. This rapid rise in the current bid often occurs in the closing hours of an eBay auction.

eBay has been so successful because it was the first major Web auction site for consumers that did not cater to a specific audience and because it advertises widely. eBay spends more than $800 million each year to market and promote its Web site. A significant portion of this promotional budget is devoted to traditional mass media outlets, such as television advertising. For eBay, such advertising has proven to be the best way to reach its main market: people who have a hobby or a very specific interest in items that are not locally available. Whether those items are jewelry, antique furniture, coins, first-edition books, or stuffed animals, eBay has created a place where people can become collectors, dispose of their collections, or trade out of their collections.

LEARNING FROM FAILURES

Auction Universe

One of the most promising new entrants into the general consumer auction business was Auction Universe. Times Mirror, the parent company of the *Los Angeles Times* newspaper, started Auction Universe in 1997 and then sold it in 1998 to a partnership of eight major newspaper companies (including Times Mirror itself) called **Classified Ventures**. These companies were concerned that classified advertising on the Web posed a threat to their newspapers' classified advertising, which is one of the most profitable elements in the newspaper business. Through their Classified Ventures partnership, these newspaper companies started their own Web sites for classified ads such as Apartments.com, Cars.com, and NewHomeNetwork.com. These sites earn revenue by charging for running ads, by selling advertising on their pages, or both. Classified Ventures believed that the Auction Universe site could become an important and profitable part of its Web presence.

Auction Universe closed in August 2000. Classified Ventures' classified ad sites continue to operate. The Auction Universe site was modeled on eBay and offered similar types of auctions and services for buyers and sellers. Some critics believed that the Auction Universe interface was more intuitive than eBay's and included a better search engine; however, the site failed to mount a sustained challenge to eBay's dominance. Even with major corporate sponsorship and a $10 million advertising campaign behind it, Auction Universe was unable to displace the advantage eBay obtained as the first Web auction site for general consumers.

Because one of the major determinants of Web auction site success is attracting enough buyers and sellers to create markets in many different items, some Web sites that already have a large number of visitors have entered this business. Portal sites such as **Yahoo!** have created general consumer auctions patterned after eBay. The Yahoo! Shopping and Auctions home page appears in Figure 6-4.

As you examine the home page in Figure 6-4, notice that it includes many of the same features as the eBay home page. For example, it has links to categories of auction items and a search function.

FIGURE 6-4 Yahoo! Auctions and Shopping Web page

To attract sellers who frequently offer items or who continually offer large numbers of items, eBay offers a platform called eBay Stores within its auction site. At a very low cost, sellers can establish eBay stores that show items for sale as well as items being auctioned. This can help sellers generate additional profits from sales of items related to those offered in their auctions. These eBay stores are integrated into the auction site; that is, when a bidder searches for an item, the results page includes auctions and listings from sellers' eBay stores.

Yahoo! had some early success in attracting large numbers of auction participants, in part because it offered its auction service to sellers at no charge. Yahoo! was less successful in attracting buyers, resulting in less bidding action in each auction than generally occurs on eBay. In January 2001, Yahoo! began charging sellers in the face of dropping ad revenues in its other Web operations. Within one month, Yahoo! lost about 80 percent of its auction listings; however, the percentage of listed items that ended in a sale increased sixfold, and the dollar amount of completed auctions remained constant. Because Yahoo! draws a large number of visitors every month, the company hoped that is would be able to further increase participation in its auctions and attract some of the sellers who left in reaction to the fees. However, in 2005, Yahoo! reverted to its original policy of not charging fees to sellers. Some industry observers believe that Yahoo! is now using its auctions as a loss leader to attract small businesses to its Yahoo! Merchant Solutions service, which do require the payment of fees.

Amazon.com, the pioneering Web bookseller, also added auctions to its list of products and services. Unlike eBay, which was profitable from the start, Amazon took seven years to earn its first small profits. Some industry observers note that Amazon might earn more by charging a commission on the auction of a used book than it could earn by selling the same title as a new book. In the auction of a used book, Amazon does not incur the costs of buying, handling, and shipping inventory; it simply collects a commission on the sale.

One of the aggressive marketing tactics that Amazon used to promote its auction business was its "Auctions Guarantee." This guarantee directly addressed concerns raised in the media by eBay customers about being cheated by sellers. When Amazon opened its Auctions site, it agreed to reimburse any buyer for merchandise purchased in an auction that was not delivered or that was "materially different" from the seller's representations. Amazon limited its guarantee to items costing $250 or less; however, buyers of more expensive items can protect themselves by using a third-party **escrow service**, which holds the buyer's payment until he or she receives and is satisfied with the purchased item. You will learn more about escrow services later in this chapter.

In response to Amazon's guarantee, eBay immediately offered its customers a similar guarantee, but not before Amazon gained free advertising from the media coverage of its guarantee. In 2003, eBay increased its guarantee to $500 in the hopes that it would induce new customers to buy at eBay auctions. The experiment worked well; in fact, eBay increased its guarantee again in 2004 to $1000. In 2005, eBay reduced its guarantee to $200 with a $25 deductible, but continued to offer a $1000 guarantee through its payment processing subsidiary PayPal. This change encourages bidders to use PayPal yet still provides some protection for bidders who do not. Some eBay users have complained that the company does not act quickly on claims under the guarantee and does its best to avoid paying claims; however, the guarantee remains a powerful marketing tool.

Amazon also used other strategies to compete with eBay. For example, Amazon established an online joint venture with Sotheby's, the famous British auction house, to hold online auctions of fine art, antiques, jewelry, and other high-value collectibles. In general, it is difficult to sell these types of items on the Web because of the importance of direct, in-person inspection. Such inspections help establish the item's authenticity and condition. Sotheby's and its international network of dealers obtain the items for their online auctions and guarantee the authenticity and condition of items, just as at a Sotheby's in-person auction. Again, Amazon is addressing a serious concern of some of eBay's most prized customers, those who participate in auctions of high-value items. The Sotheby's joint venture suggests that Amazon is trying hard to differentiate its auction site from eBay's as a more attractive home for the upper end of the auction market.

At the lower end of the market, Amazon integrated its zShops platform with its auction operation. This gives small sellers the same kind of combined selling space that eBay does with its combination of auction listings with eBay Store listings. Amazon further increases the value of this marketplace by including zShops and Amazon Auction listings on search results pages for customers who are shopping in any part of the Amazon site. For example, a site visitor searching for a DVD at Amazon will see Amazon Auction listings and offers to sell new or used copies of that DVD from zShops sellers in the page that provides the link to purchase a new copy of the DVD from Amazon. Many industry analysts agree that Amazon's zShops has taken a significant amount of business away from eBay.

Despite the innovations and large customer bases of Yahoo! and Amazon, the premier general consumer U.S. Web auction site today is still eBay. Any competitors, even large and well-financed companies, must overcome the strong advantage built by eBay. Any challenger to eBay will find that the economic structure of markets is biased against new entrants. Because markets become more efficient (yielding fairer prices to both buyers and sellers) as the number of buyers and sellers increases, new auction participants are inclined to patronize established marketplaces. Thus, existing auction sites, such as eBay, are inherently more valuable to customers than new auction sites. This basic economic fact, which economists call a **lock-in effect**, will make the task of creating other successful general consumer Web auction sites even more difficult in the future.

A somewhat ironic example of the lock-in effect exists in the Japanese general consumer auction market. In this market, unlike in the United States, Yahoo! was the first major company to offer online auctions. At the time (early 1999), Yahoo! did not charge fees to sellers. When eBay entered the Japanese market five months later, it charged fees and found few people interested in its services. Even when Yahoo! began charging fees in 2001 for its auctions, the lock-in effect preserved its strong lead in Japan. Yahoo! Auctions holds more than 90 percent of the $3 billion market in Japan, while eBay's market share is less than 3 percent.

Despite eBay's strong dominance in general consumer auctions, there are companies that have entered the market. **Overstock.com**, an online retailer that specializes in closeout sales of brand name merchandise, launched an online auction site in 2004. By the end of its first year, **Overstock Auctions** had more than 600,000 registered users and had listed more than 10 million items. The listing fees that Overstock Auctions charges sellers are substantially less than eBay's.

Specialty Consumer Auctions

Rather than struggle to compete with a well-established rival such as eBay in the general consumer auction market, a number of firms have decided to identify special-interest market targets and create specialized Web auction sites that meet the needs of those market segments. Several early Web auction sites started by featuring technology items such as computers, computer parts, photographic equipment, and consumer electronics.

Doug Salot was buying and selling computer equipment on the Internet's Usenet newsgroups before the Web existed. He saw the potential for the Web's graphical user interface in creating auctions, and, in September 1996, started an auction site, Haggle Online, for computer equipment. Haggle was bought and sold several times between 1999 and 2002. Today, the Haggle Online auction business is operated under the brand name **uBid**. Unlike most online auction sites, uBid sells its own inventory of closeouts, refurbished computers, and computer-related items.

Although computers and technology were obvious early market segments that would find online auctions appealing in the first wave of electronic commerce, a number of other specialized Web auction sites emerged as the Web matured. Although their operations are much smaller than those of general-consumer auction sites, some companies that operate specialty consumer auctions have succeeded in building loyal followings. **PotteryAuction.com** and **JustBeads.com** are two examples of auction sites that cater to buyers and sellers who are geographically dispersed but share highly focused interests. **StubHub** operates an auction site for event tickets. The site includes tickets offered for sale by ticket brokers and also by individuals for fixed prices. The StubHub home page appears in Figure 6-5 (on the next page).

Other specialty consumer auction sites include **Cigarbid.com**, **Golf Club Exchange**, and **Winebid**. These sites gain an advantage by identifying a strong market segment with readily identifiable products that are desired by people with relatively high levels of disposable income. Golf clubs, cigars, wine, and technology products all meet these requirements. As other Web auction site developers identify similar market segments, these specialized consumer auctions might become profitable niches that can successfully coexist with large general consumer sites, such as eBay.

Consumer Reverse Auctions and Group Purchasing Sites

Sites such as **Respond.com** offer reverse auctions directed at a consumer market. For example, at the Respond.com site, a site visitor fills out a form that describes the item or service in which he or she is interested. The site then routes the visitor's request to a group of participating merchants who reply to the visitor by e-mail with offers to supply the item at a particular price. This type of offer is often called a **reverse bid**. The buyer can then accept the lowest offer or the offer that best matches the buyer's criteria.

Many people think of **Priceline.com** as a seller-bid auction site. Priceline.com allows site visitors to state a price they are willing to pay for airline tickets, car rentals, hotel rooms, and a few other services. If the price is sufficiently high, the transaction is completed. However, Priceline.com completes many of its transactions from an inventory that it has purchased from airlines, car rental agencies, and hotels. To the extent that

FIGURE 6-5 StubHub home page

Priceline sells out of its inventory, it operates more as a liquidation broker (you will learn more about liquidation brokers in the next section) than as a true reverse auction site. The Priceline.com home page appears in Figure 6-6.

Another new type of business made possible by the Internet is the group purchasing site, which is similar to a consumer reverse auction. On a **group purchasing site**, the seller posts an item with a price. As individual buyers enter bids on an item (these bids are agreements to buy one unit of that item, but no price is specified), the site can negotiate a better price with the item's provider. The posted price ultimately decreases as the number of bids increases, but only if the number of bids increases. Thus, a group purchasing site builds up a number of buyers who will force the seller to reduce its price. The effect is very much like the one achieved by a consumer reverse auction.

The types of products that are ideal for group purchasing sites are branded products with well-established reputations. This allows buyers to feel confident that they are getting a good bargain and are not trading off price for reduced quality. The products should also have a high value-to-size ratio and should not be perishable.

FIGURE 6-6 Priceline.com home page

Mercata was the first major group purchasing site, but it closed its doors in January 2001. The European group purchasing site **LetsBuyIt.com** have also experienced difficulties in maintaining a profitable operation. In general, consumer group purchasing sites have had difficulty attracting sellers' interest. Few companies selling products that are well suited to group purchasing efforts—such as computers, consumer electronics, and small appliances—have been willing to work with the group purchasing sites. These sellers have not found any compelling advantage in offering reduced prices on their merchandise to the

group purchasing sites. Most of these sellers believe that these sites cannibalize product sales in their existing sales channels and are reluctant to offend the current distributors of their products by selling through group purchasing sites. Without eager sellers, the revenue model behind consumer group purchasing sites fell apart.

Business-to-Business Auctions

Unlike consumer online auctions, business-to-business online auctions evolved to meet a specific existing need. Many manufacturing companies periodically need to dispose of unusable or excess inventory. Despite the best efforts of procurement and production management, businesses occasionally buy more raw materials than they need. Many times, unforeseen changes in customer demand for a product can saddle manufacturers with excess finished goods or spare parts.

Depending on its size, a firm typically uses one of two methods to distribute excess inventory. Large companies sometimes have liquidation specialists who find buyers for these unusable inventory items. Smaller businesses often sell their unusable and excess inventory to **liquidation brokers**, which are firms that find buyers for these items. Online auctions are the logical extension of these inventory liquidation activities to a new and more efficient channel, the Internet.

Two of the three emerging business-to-business Web auction models are direct descendants of these two traditional methods for handling excess inventory. In the large-company model, the business creates its own auction site that sells excess inventory. In the small-company model, a third-party Web auction site takes the place of the liquidation broker and auctions excess inventory listed on the site by a number of smaller sellers. The third business-to-business Web auction model resembles consumer online auctions. In this model, a new business entity enters a market that lacked efficiency and creates a site at which buyers and sellers who have not historically done business with each other can participate in auctions. An alternative implementation of this model occurs when a Web auction replaces an existing sales channel.

One of the earliest examples of the large-company model is Ingram Micro's Auction Block site, which Ingram Micro started in 1997. **Ingram Micro** is a major distributor of computers and related equipment to value-added resellers (VARs), which are companies that configure computer hardware and software, such as network servers, for business users. Because computer technology changes rapidly, Ingram Micro often finds itself with outdated disk drives, computer chips, and other items that it formerly turned over to liquidation brokers.

Ingram Micro now auctions those items to its established customers through its internally operated Auction Block site. Auction volume is more than $6 million per year and the VARs that are Ingram Micro's main customers now have the option of putting the Auction Block program on their own sites, which allows their customers to participate in the bidding. The software used by Ingram Micro and its customers was developed by **Moai Technologies**, which now sells the software to other companies that want to follow Ingram Micro's strategy.

Ingram Micro estimates that the auction prices it receives on the site average about 60 percent of the items' costs. This percentage compares favorably to the average of 10 percent to 25 percent of cost that Ingram Micro was obtaining from liquidation brokers. In effect, large companies such as Ingram Micro are removing the liquidation brokers from the value chain and claiming the brokers' intermediary profits. Recall that this process is called disintermediation.

Another large computer technology company that decided to build its own auction site to dispose of obsolete inventory is CompUSA. Although CompUSA sells to individuals, it makes a significant portion of its sales to corporate customers. Instead of selling through liquidation brokers, CompUSA decided to let midsized and smaller businesses bid directly on its technology inventory. Its Web auction site, **CompUSA Auctions**, appears in Figure 6-7.

FIGURE 6-7 CompUSA Auctions home page

In the second business-to-business auction model, smaller firms sell their obsolete inventory through an independent third-party auction site. In some cases, these online auctions are conducted by the same liquidation brokers that have always handled the disposition of obsolete inventory. These brokers adapted to the changed environment and implemented electronic commerce to stay in business. One example is the **Dove Bid** site established by the Ross-Dove Company, a traditional liquidation broker for many years.

Gordon Brothers Group, another liquidation broker, has been selling the inventory of failed retailers since 1903. The company has used its expertise to launch or help others launch Web sites that liquidate retailer inventories, including **GB RetailExchange** and **SmartBargains.com**. As many dot-com companies began to fail, the savvy liquidation company identified yet another business opportunity. Gordon Brothers created a separate subsidiary that sells entire Web sites, software, hardware, and even the intellectual property left in the wake of failed Web ventures.

Other third-party auction sites have been started by newcomers or companies that want to liquidate their inventory and are willing to do the same for other companies in their industry. In some industries, new auction markets on the Web are replacing older ways of doing business. For example, telecommunications companies can buy or sell time on their networks to each other through the **Band-X** Web auction site. Sellers list the number of minutes they have available, and the price of airtime minutes fluctuates in response to buyers' bids on those minutes.

Established securities trading organizations such as the New York Stock Exchange (NYSE) and the Chicago Board of Trade (CBOT) are facing an electronic challenge to their time-honored ways of doing business. In 1998, a new venture called the **International Securities Exchange (ISE)** was funded by electronic brokers E*TRADE and Ameritrade Holdings, with contributions from several other brokerage firms. This new securities exchange was the first to be registered in the United States since 1973. In May 2000, the ISE began its operations with trading in 82 of the most actively traded stock options contracts. By 2005, the ISE was completing more than 40 million trades per month and had become the largest equity options trading company in the United States. In 2000, the **Pacific Exchange,** a traditional stock exchange that has been in business since 1862, joined with Archipelago Holdings to develop an electronic exchange, **ArcaEx**, which replaced the Pacific Exchange's physical trading floor in March 2002. ArcaEx trades securities listed on the NYSE, the American Stock Exchange, the Pacific Exchange, and NASDAQ Stock Market. The ArcaEx home page is shown in Figure 6-8.

Electronic securities exchanges pose a threat to all existing physical securities exchanges because their lower fees might attract the most lucrative large trades of active issues from existing exchanges. Industry analysts question whether traditional exchanges such as the NYSE and the CBOT can continue to exist once electronic exchanges become better established. In 2005, the NYSE announced a proposed merger with ArcaEx, which would give the NYSE access to the ArcaEx electronic trading platform. The merger plan was resisted by some long-time NYSE member firms that believed the NYSE could develop online trading capabilities on its own. The completion of the merger has been delayed by the objections of these member firms.

FIGURE 6-8 ArcaEx electronic exchange

Another online auction innovation is the new approach to bidding pioneered by FreeMarkets, now a part of **Ariba**. Instead of using a public online auction site, the FreeMarkets approach provides software and hardware tools to coordinate private online auctions that allow businesses to solicit bids from suppliers. Instead of sending out request for proposal packages to many suppliers, a business can list its request for proposals with Ariba. Companies that have used this approach report savings of 10 percent to 20 percent in their procurement costs. In effect, Ariba has moved the traditional first-price sealed-bid auction form onto the Internet.

A growing number of hospitals and other organizations are using online auctions to fill temporary employment openings. Health care workers, such as nurses, perform similar duties in specific health care settings in most hospitals. For example, the duties performed by an intensive care unit nurse are almost identical across hospitals. State regulations on nurse licensing require that nurses have similar levels of knowledge, skills, and abilities. Having similar job functions in workplaces and having similarly qualified persons working in those jobs allows both nurses and employers to treat the nursing function as a commodity. Therefore, nurses can easily work for a variety of employers and do not require long periods of training or learning procedures specific to a particular

hospital. In the past, nurse agencies would coordinate placement, matching nurses who wanted to work particular days or shifts with hospitals and other health care organizations who had shifts to fill. The agency would earn a commission on each placement. Today, companies such as **BidShift** sell software to employers that lets them operate their own shift auctions. Nurses bid on the shifts they would prefer to work and the software manages the auctions. In an efficient matching of supply and demand, employers meet their staffing needs efficiently, nurses get to work when they want, and the agency fee is avoided.

Business-to-Business Reverse Auctions

In Chapter 5, you learned how businesses are creating various types of electronic marketplaces to conduct B2B transactions. Many of these marketplaces include auctions and reverse auctions. In 2001, glass and building materials producer Owens Corning held more than 200 reverse auctions for a variety of items including chemicals (direct materials), conveyors (fixed assets), and pipe fittings (MRO). Owens Corning even held a reverse auction to buy bottled water. Asking its suppliers to bid has reduced the cost of those items by an average of 10 percent. Because Owens Corning buys billions of dollars worth of materials, fixed assets, and MRO items each year, the potential for cost savings is significant. Both the U.S. Navy and the federal government's General Services Administration are experimenting with reverse auctions to acquire a small part of the billions of dollars worth of materials and supplies they purchase each year. Companies that use reverse auctions include Agilent, BankOne, Bechtel, Boeing, Raytheon, and Sony.

Not all companies are enthusiastic about reverse auctions. Some purchasing executives argue that reverse auctions cause suppliers to compete on price alone, which can lead suppliers to cut corners on quality or miss scheduled delivery dates. Others argue that reverse auctions can be useful for nonstrategic commodity items with established quality standards. However, as R. Gene Richter (a supply management pioneer at IBM) noted in a 2001 interview published in *Purchasing*, "Everything is strategic to somebody. Talk about ballpoint pens. A secretary has spots all over her brand new blouse because the pen you bought for a cent and a half is leaking." Companies that have considered reverse auctions and decided not to use them include Cisco, Cubic, IBM, and Solar Turbines.

With compelling arguments on both sides, the extent to which reverse auctions will be used in the B2B sector is not yet clear; however, some guidelines for deciding whether to use reverse auctions are beginning to emerge. In some industry supply chains, the need for trust and long-term strategic relationships with suppliers makes reverse auctions less attractive. In fact, the trend in purchasing management over the last 20 years has been to increase trust-based relationships that endure for many years. Using reverse auctions replaces trusting relationships with a bidding activity that pits suppliers against each other and is seen by many purchasing managers as a step backward.

In some industries, suppliers are larger and more powerful than the buyers. In those industries, suppliers simply do not agree to participate in reverse auctions. If enough important suppliers refuse to participate, it is impossible to conduct reverse auctions. In industries where there is a high degree of competition among suppliers, however, reverse auctions can be an efficient way to conduct and manage the price bidding that would naturally occur in that market. Figure 6-9 lists the supply chain characteristics that support or discourage reverse auctions identified in ongoing research being conducted by Dima Ghawi and the author.

Supply Chain Characteristics that Support Reverse Auctions:

- Suppliers are highly competitive.
- Product features can be clearly specified.
- Suppliers are willing to reduce the margin they earn on this product.
- Suppliers are willing to participate in reverse auctions.

Supply Chain Characteristics that Discourage Reverse Auctions:

- Product is highly complex or requires regular changes in design.
- Product has customized features.
- Long-term strategic relationships are important to buyers and suppliers.
- Switching costs are high.

FIGURE 6-9 Supply chain characteristics and reverse auctions

Auction-Related Services

The growth of eBay and other auction sites has encouraged entrepreneurs to create businesses that provide auction-related services of various kinds. These include escrow services, auction directory and information services, auction software (for both sellers and buyers), and auction consignment services. This section describes each of these new industries that have arisen to meet the needs of auction participants. You will learn about yet another auction-related business, payment-processing services, in Chapter 11.

Auction Escrow Services

A common concern among people bidding in online auctions is the reliability of the sellers. Surveys indicate that as many as 15 percent of all Web auction buyers either do not receive the items they purchased, or find the items to be different from the seller's representation in some significant way. About half of those buyers are unable to resolve their disputes to their satisfaction. When purchasing high-value items, buyers can use an **escrow service** to protect their interests.

You learned earlier in this chapter that an escrow service is an independent party that holds a buyer's payment until the buyer receives the purchased item and is satisfied that the item is what the seller represented it to be. Some escrow services take delivery of the item from the seller and perform the inspection for the buyer. In such situations, buyers give the escrow service authority to examine. Usually, escrow agents that perform this service are art appraisers, antique appraisers, and the like who are qualified to judge quality, usually with better judgment than the buyer. Escrow services do, however, charge fees ranging from 1 percent to 10 percent of the item's cost, subject to a minimum fee, typically between $5 and $50. The minimum fee provision can make escrow services too expensive for small purchases. Escrow services that handle Web auction transactions include **Escrow.com**, **SafeBuyer.com**, **eDeposit**, and **Square Trade**. Some of these escrow firms also sell auction buyer's insurance, which can protect buyers from nondelivery and some quality risks.

Wary bidders in low-price auctions (for which the minimum escrow charges would be excessive) do have some other ways to protect themselves. One way is to consult the seller's record on the auction site to see how the seller is rated. Also, some Web sites offer lists of auction sellers who have failed to deliver merchandise or who have otherwise cheated bidders in the past. These sites are operated as free services (often by bidders who have been cheated), so they sometimes contain unreliable information and they open and close periodically, but you can use your favorite search engine to locate sites that currently carry such lists.

Auction Directory and Information Services

Another service offered by some firms on the Web is a directory of auctions. Sites such as **Auctionguide.com** offer guidance for new auction participants and helpful hints and tips for more experienced buyers and sellers along with directories of online auction sites. **AuctionBytes** is an auction information site that publishes an e-mail newsletter with articles about developments in the online auction industry.

The **StrongNumbers** site offers information about fair market value for a wide variety of products and collectibles. This information can be useful to sellers who are trying to set a reserve price or to buyers deciding whether to bid or how much to bid. **Price Watch** is an advertiser-supported site on which those advertisers post their current selling prices for computer hardware, software, and consumer electronics items. Although this monitoring is a retail pricing service designed to help shoppers find the best price on new items, Web auction participants find it can help them with their bidding strategies. **PriceSCAN** is a similar price-monitoring service that also includes prices on books, movies, music, and sporting goods, in addition to the types of items monitored by Price Watch.

Auction Software

Both auction buyers and sellers purchase software to help them manage their online auctions. Sellers often run many auctions at the same time. Companies such as **Andale**, **AuctionHawk**, and **Vendio** sell auction management software and services for both buyers and sellers. For sellers, these companies offer software and services that can help with or automate tasks such as image hosting, advertising, page design, bulk repeatable listings, feedback tracking and management, report tracking, and e-mail management. Using these tools, sellers can create attractive layouts for their pages and manage hundreds of auctions. Figure 6-10 includes a portion of the Andale products page that lists some of the seller management software and services that the company offers.

For buyers, a number of companies sell auction sniping software. **Sniping software** observes auction progress until the last second or two of the auction clock. Just as the auction is about to expire, the sniping software places a bid high enough to win the auction (unless that bid exceeds a limit set by the sniping software's owner). The act of placing a winning bid at the last second is called a **snipe**. Because sniping software synchronizes its internal clock to the auction site clock and executes its bid with a computer's precision, the software almost always wins out over a human bidder. The first sniping software, named Cricket Jr., was written by David Eccles in 1997. He sells the software on his **Cricket Sniping Software** site. A number of other sniping software sellers have entered the market—each claiming that its software will outbid other sniping software. Some sites offer

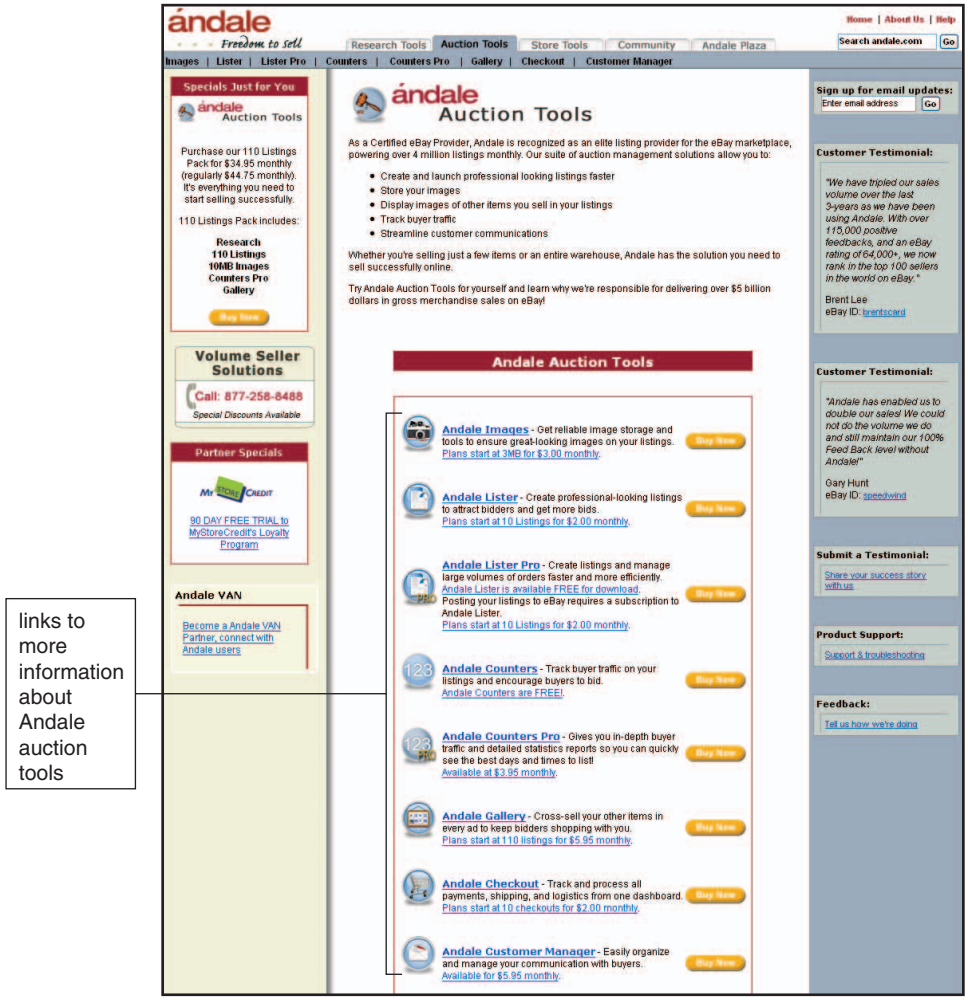

FIGURE 6-10 Andale auction tools

sniping services; that is, the sniping software runs on their Web site and customers enter their sniping instructions on that site. Some of these companies offer subscriptions; others use a mixed revenue model in which they offer some free snipes supported by advertising, but require payment for additional snipes. A good source for current information about the sniping software and services business is the **AuctionBytes** Web site. The home page of AuctionBytes is shown in Figure 6-11.

FIGURE 6-11 AuctionBytes home page

Auction Consignment Services

Several entrepreneurs have identified yet another auction-related business that meets the needs of people and small businesses who want to use an online auction, but do not have the skills or the time to become a seller. These companies, called **auction consignment services**, take an item and create an online auction for that item, handle the transaction, and remit the balance of the proceeds after deducting a fee that ranges from 10 percent to 40 percent of the selling price obtained. Items that do not sell are returned or donated to charity.

The main auction consignment businesses include **AuctionDrop**, **QuickDrop**, and **Picture it SOLD**. Because one key to success in this business is having convenient locations at which customers can drop off their items, all of these companies are planning to open their own stores and franchise stores as rapidly as possible.

All four of these auction-related businesses are excellent examples of the second wave of electronic commerce. In the first wave, the online auction business was made possible by the Web. In the second wave, the online auction business has itself created opportunities for even more entirely new types of business.

VIRTUAL COMMUNITIES AND WEB PORTALS

Online auctions and related activities are not the only new businesses made possible by the Internet. As you learned in earlier chapters, the Internet reduces transaction costs in value chains and offers an efficient means of communication to anyone with an Internet connection. Combining the Internet's transaction cost reduction potential with its role as a facilitator of communication among people, companies have developed two other new approaches to making money on the Internet and the Web: virtual communities and Web portals. Consider the following scenario:

> Fran Dennison has arrived in Paris one day early for a series of business meetings. She hopes to recover from her jet lag and enjoy a little French food before her work begins. She finds a lovely café and, using her basic knowledge of French, successfully orders lunch. Fran is reading the business section of *Le Monde*, a local newspaper. She begins reading an article about one of the business partners she will meet tomorrow, but her French is not good enough to completely understand the article. Fran opens her notebook computer and enters a request for translation services. She specifies that she needs immediate real-time translation of up to 500 words and is willing to pay up to 20 cents per word. She notes that the material to be translated is an article in today's *Le Monde*; she also enters the title of the article. Her computer, which contains a cellular link to her office network, launches an immediate search of online communities and marketplaces for this exact service. Two minutes later, a message appears on her computer from a French graduate student in the United States, Philippe Desmarest. His message indicates that he is willing to provide an immediate translation at Fran's quoted rate and that his computer has found the article on the *Le Monde* Web site. Five minutes later, an English translation appears in Fran's mailbox and $94.20 has been moved from her checking account to Philippe's. Fran has time to read the article and think about how she will adjust her presentation at tomorrow's meeting before her salad arrives.

This scenario is very close to becoming possible today. Three key elements are required to make things such as Fran's on-demand translation a reality: cellular-satellite (mobile) communications technology, electronic marketplaces, and software agents. All three of these elements exist today, but they have yet to be completely integrated. You will learn about each of these elements in the following sections.

Mobile Communications Technology

Cellular-satellite communications technology capable of linking Fran to the Internet can be packaged with notebook computers, personal digital assistants (PDAs), and mobile phones. A PDA displaying a Web page appears in Figure 6-12.

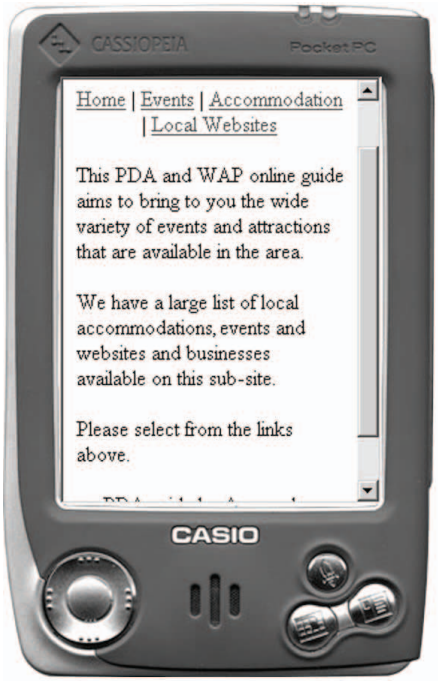

FIGURE 6-12 Web page displayed on a PDA

The PDA shown in the figure displays a Web page sent using the **Wireless Application Protocol (WAP)**. WAP allows Web pages formatted in HTML to be displayed on devices with small screens, such as PDAs and mobile phones. As mobile technology improves, more and more devices will become Web-enabled and will include other features that will open doors to a second wave of electronic commerce. For example, **Garmin** makes a PDA that includes a Global Positioning Service (GPS) receiver. The user enters a destination address and the PDA displays a map. As the user drives toward the destination, the GPS receiver tracks the PDA's current location (using signals from GPS satellites) and causes the PDA to announce driving directions, such as "turn right 300 feet ahead." The PDA makes the announcements based on information contained in the GPS signals it receives and a map of the area

that is stored in its memory. Other companies are beginning to integrate wireless Internet connectivity with GPS tools to create completely new products for individuals and businesses. As the second wave of electronic commerce continues to evolve, this type of technology convergence will provide new revenue opportunities for innovative businesses.

Mobile Business

In Chapter 5, you learned that electronic marketplaces have grown in the B2B sector. As wireless and satellite data transmission technologies become integrated with marketplaces, these marketplaces can serve people who want to buy and sell a wide range of products and services. Most industry observers agree that revenue models for mobile business can be developed once mobile phones, notebook computers with wireless Internet connections, and online marketplaces are interconnected in ways that let people switch among modes of access seamlessly. This has not occurred yet, but many experts believe that we are getting close. The much-heralded potential of mobile business could materialize at last. Firms such as **AvantGo** already provide PDAs with downloads of Web site contents, news, restaurant reviews, and maps. Users can create accounts with AvantGo that permit AvantGo to send these downloads to their wireless PDAs, telephones, or other mobile devices automatically. The company earns revenue by selling ads that appear with the downloaded content. AvantGo's home page appears in Figure 6-13 (on page 292).

Another company that has been successful at generating revenue from mobile technology and its convergence with GPS is **Wherify Wireless**. Wherify sells small mobile phones that do not have a standard keypad. The phone has five programmable buttons for outgoing calls, but the key feature is that the phone continually reports its location to the Wherify tracking center. Subscribers can give the mobile phones to their children, elderly parents, or employees and obtain location information by calling the tracking center or connecting to the tracking center through the Internet. The wireless technology and Internet technology combination that Wherify uses is a good example of the type of seamless integration that companies will use to generate revenue as they develop mobile business ideas in the future.

Intelligent Software Agents

Some companies provide Web sites that help users find products and services for sale on the Web. These sites use **intelligent software agents** (also called **software robots**, or **bots**), which are programs that search the Web and find items for sale that meet a buyer's specifications.

Some software agents are focused on a particular category of product, such as **Best Book Buys**, which searches more than 20 online bookstores for the best prices on books. In addition to obtaining price information, researchers are developing other software agents that track ratings of buyer and seller reputations. In much the same way that eBay makes reputation reports available to its bidders and sellers about each other, more general software agents can create and search databases of all kinds of buy-sell transactions on the Web. The **MIT Media Lab Software Agents Group** and the **Carnegie Mellon Intelligent Software Agents Lab** have been leaders in the development of intelligent software agents. The **BotSpot** Web site is a good source of information about software agents and includes links

FIGURE 6-13 AvantGo home page

to downloadable bot programs. Simon is one of the best shopping agents currently available. In addition to finding product item matches, software agents such as Simon can find the lowest price for an item. You can find Simon at the **mySimon** Web site.

Virtual Communities

A **virtual community**, also called a **Web community** or an **online community**, is a gathering place for people and businesses that does not have a physical existence. Howard Rheingold described the characteristics of these communities in his 1993 book, *The Virtual Community*, which has become recognized as the definitive book on the subject. Virtual communities exist on the Internet today in various forms, including Usenet newsgroups, chat rooms, and Web sites. These communities offer people a way to connect with each other and discuss common issues and interests. The social interaction in these communities can be considerable and many sociologists believe that the communication and relationship-forming activities that occur online are similar to those that occur in physical communities.

One form of virtual community with which you might be familiar is the **virtual learning community**. Many colleges and universities now offer courses that use distance learning platforms such as **Blackboard** or **WebCT** for student-instructor interaction. These distance

learning platforms include tools such as bulletin boards, chat rooms, and drawing boards that allow students to interact with their instructors and each other in ways that are similar to the interactions that might occur in a physical classroom setting. Some open-source software projects are devoted to the development of virtual learning communities, including **Moodle** and **uPortal**.

In addition to fulfilling the social interaction needs of individuals, virtual communities can help companies, their customers, and their suppliers plan, collaborate, transact business, and interact in ways that benefit all of them.

Another approach to electronic commerce using virtual communities is the **Google Answers** site. Google Answers gives people a place to ask questions that are then answered by an expert (called a Google Answers Researcher) for a fee. Google administers a test to determine which members of the community qualify to become Google Answers Researchers. The questioner sets the fee (there is a minimum fee of $2.50) and determines whether an answer is sufficient before authorizing the payment of the fee. Most questions posted to date have been answered for fees between $10 and $200. Members of the community who are not Google Answers Researchers are also permitted to answer questions, but they do not collect a fee. Many of the community members who are active answer providers have gone on to take the test and become Google Answers Researchers. When a question is answered, the question and answer appear on the Google Answers site. The Google Answers home page appears in Figure 6-14 (on page 294).

Early Web Communities

One of the first Web communities was the **WELL**. The WELL, which is an acronym for "whole earth 'lectronic link," predates the Web. It began as a series of dialogs among the authors and readers of the *Whole Earth Review* in 1985. Most WELL members were originally from the San Francisco Bay area, and the influence of that area's counterculture heritage is a significant part of the WELL's ambiance. Members of the WELL pay a monthly fee to participate in its forums and conferences. The WELL has been home to many important researchers and participants in the growth of the Internet and the Web. Its membership also includes noted writers and artists. In 1999, ***Salon.com*** bought the WELL and has maintained the sense of community that had existed there for 14 years. Access to the WELL community now requires a $10 per month subscription. A premium subscription that includes an "@well.com" e-mail address and the ability to start your own conferences within the WELL costs $15 per month.

As the Web emerged in the mid-1990s, its potential for creating new virtual communities was quickly exploited. In 1995, Beverly Hills Internet opened a virtual community site that featured two Webcams aimed down Hollywood streets and links to entertainment information Web sites. The theme of this community was the formation of digital cities around the focus of the Webcams. The founders of Beverly Hills Internet wanted to create a sense of community and thought that the Webcams would help accomplish that goal. Their hope was that people would be attracted by the Webcam images and want to add their own contributions, thus becoming members of a virtual neighborhood. Members were given free space on the Web site to create pages within these virtual cities on which to add their contributions. As it turned out, the Webcams never did attract much traffic, but the offer of free Web space did. The first of these digital cities were created around Webcams in the Los Angeles area and therefore were named for Los Angeles-area communities.

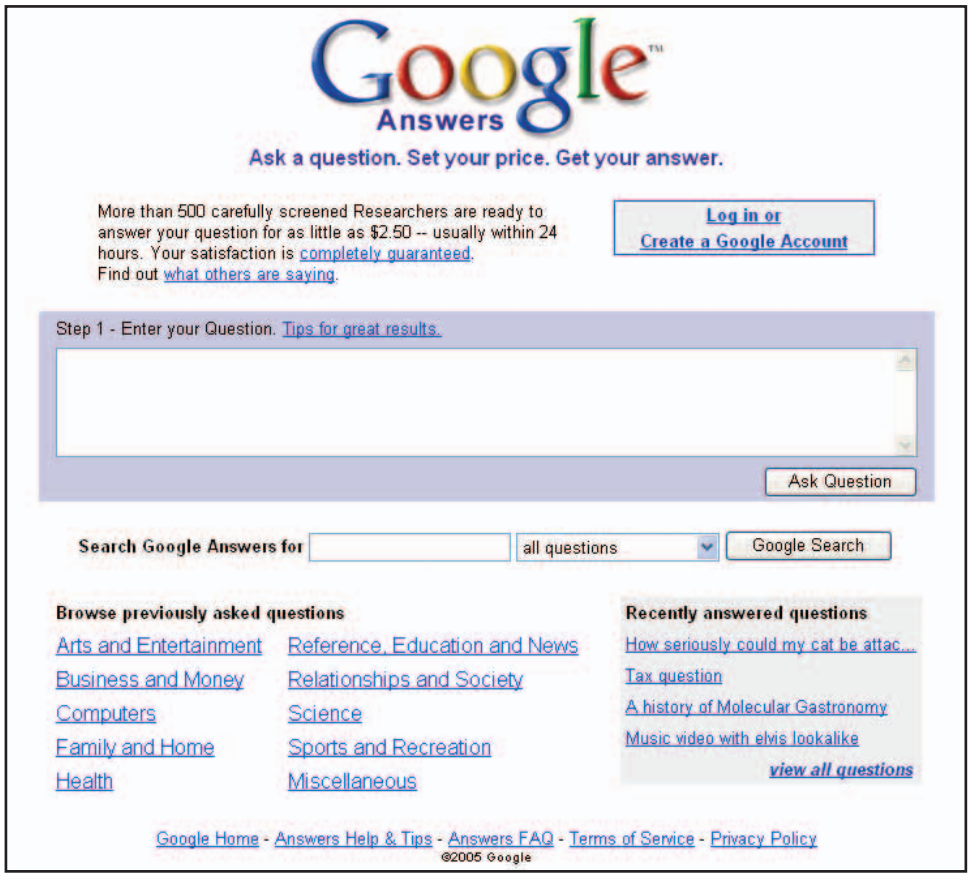

FIGURE 6-14 Google Answers page

As the site grew to include more geographic areas, it changed its name to GeoCities. GeoCities earned revenue by selling advertising on members' Web pages and pop-up pages that appeared whenever a visitor accessed a member's site. GeoCities grew rapidly and was purchased in 1999 by Yahoo! for $5 billion.

Other similar sites became virtual communities. Tripod was founded in 1995 in Massachusetts and offered its participants free Web page space, chat rooms, news and weather updates, and health information pages. Like GeoCities, Tripod sold advertising on its main pages and on participants' Web pages. The search engine site **Lycos** purchased Tripod in 1998 for $58 million.

Theglobe.com, also started in 1995, was the outgrowth of a class project at Cornell University. The students who created the site included bulletin boards, chat rooms, discussion areas, and personal ads. They then sold advertising to support the site's operation. Later additions included news feeds, an online art gallery, and shopping pages. Although Theglobe.com offered free Web page space, it did not emphasize that feature to the same

extent as competing virtual communities. Theglobe.com turned down several offers to purchase its community during its lifetime. The company experienced declines in advertising revenues during the economic slowdown of 2000 and finally closed in 2001.

Web Community Consolidation

Virtual communities for consumers can succeed as money-making propositions if they offer something sufficiently valuable to justify a charge for membership. For example, people joining the WELL community obtain access to a very interesting set of existing members who frequent the WELL's discussion areas. These areas are open only to members. Thus, WELL owner *Salon.com* can charge a subscription fee for access to the WELL community. As you learned in the previous section, most virtual communities have been unable to support themselves and have either closed or been sold to companies such as Yahoo! or sites that have other revenue-generating activities that they can provide to the purchased community.

Web Communities in the Second Wave of Electronic Commerce

In the early days of the Internet, virtual communities were an essential part of the online experience for the small number of people who regularly used the medium. As the Internet and Web grew, some of these communities grew, but others found that their purpose as a place for sharing the new experiences of online communication began to fade. In the second wave of electronic commerce, a new phenomenon in online communication began. People who were now using the Internet no longer found a common bond in the fact that they were using the Internet. Multiple common bonds joined people with all types of common interests. The Internet was no longer the focus of the community, but was simply a tool that enabled communication among members of the community.

Web Logs (Blogs)

As you learned in Chapter 4, Web logs, or blogs, are Web sites that contain commentary on current events or specific issues written by individuals. Many blogs invite visitors to add comments, which the blog owner may or may not edit. The result is a continuing discussion of the topic with the possibility of many interested persons contributing to that discussion.

Most of the early blogs were focused on technology topics or on topics about which people have strong beliefs (for example, political or religious issues). The 2004 U.S. elections saw the first major use of blogs as a political networking tool. In previous elections, candidates had Web sites and political parties sent out e-mail messages to supporters and potential donors, but in the 2004 elections, these activities were coordinated in a new way. Individuals working alone or with established political organizations set up Web sites that provided a place for people interested in a candidate or an issue to communicate with each other. These sites allowed people to discuss issues, plan strategies, and even arrange in-person meetings called **meetups**.

After seeing the success of blogs and virtual communities as political networking tools, some retailers embraced blogs as a way to engage Web site visitors who were not ready to buy from the site, but who were interested in the products or services offered. **Bluefly.com**, the online discount apparel retailer, credits its blog **Flypaper** with drawing

new customers to the store. The Flypaper blog was opened in 2005 and invites visitors to discuss anything related to fashion. Bluefly.com is trying to appeal more to women who want to buy clothes and accessories that are currently fashionable rather than their current customer base of women who are looking for discounted items that might no longer be fashionable. Online jeweler **Ice.com** operates several blogs, including one focused on celebrity jewelry. The company believes that the blogs encourage potential customers to visit their online store.

As blogs become more common, many businesses are likely to work them into their operating plans. CNN regularly includes information from blogs on their television newscasts and a number of newspapers are experimenting with blogs and virtual community spaces on their Web sites. Some small town newspapers now depend on readers to contribute information about community issues and events. Even larger newspapers would rather run a blog or Web site with reader contributions than pay reporters to write stories about events or issues that would interest only a small segment of their readership. By inviting information and opinion contributions, newspapers hope to reach members of the 18-35 year old generation, a group that reads newspapers far less than their parents did. This trend toward having readers help write the online newspaper is called **participatory journalism**.

Social Networking Web Sites

In addition to Web sites and chat communities built on common interests, the second wave saw the introduction of new virtual communities that existed for the sole purpose of community. These sites are sometimes called **social networking** sites. One of the first of these was **craigslist**, an information resource for San Francisco area residents that was created in 1995 by WELL member Craig Newmark. That community has grown to include information for most major cities in the United States and in several other countries. The site is operated by a not-for-profit foundation, and all postings other than help-wanted ads are free.

The craigslist Web site was an early pioneer, but significant growth in profit-focused virtual community sites emerged during the second wave of electronic commerce. For example, the virtual community site **Friendster** was founded by Jonathan Abrams in 2002. Other sites followed, including **LinkedIn** and **Tribe.net**. These virtual communities have become useful tools for persons who want to make new local friends, establish acquaintances before moving to a new location, obtain advice of various kinds, or who are looking for a job.

The idea behind these sites is that people are invited to join by existing members who think they would be valuable additions to the community. The site provides a directory that lists members' locations, interests, and qualities. The directory does not disclose the name or contact information of members, however. A member can offer to communicate with any other member, but the communication does not occur until the intended recipient approves the contact (usually after reviewing the sender's directory information).

In addition to searching the directory of the community, new members can work through friends they have established in the community (perhaps starting with the person who invited them to join). By gradually building up a set of connections, members can develop contacts within the community that might prove valuable later.

Idea-Based Virtual Communities

Social networking sites form communities based on connections among people. Other Web sites create communities based on the connections between ideas. These more abstract communities are called **idea-based virtual communities** and the people who participate in them are said to be engaging in **idea-based networking**. The **del.icio.us** site calls itself a "social bookmarks manager." Individuals place Web page bookmarks with one-word tags that describe the Web page in a community-accessible location on the site. The bookmark-tag combinations are focused on ideas and the contributions of all community members build a shared base of knowledge about those ideas. Among the most active tag names on the site are words such as design, reference, tools, music, news, howto, and photography. Another idea-based virtual community that uses shared tags is **43 Things**.

Although all of these virtual community sites are still fairly new, they show great promise for re-creating (on a much larger scale) the essence of the original Internet communities. Strategies that build on a combination of virtual communities and other activities are called Web portal revenue models, discussed in the next section.

Revenue Models for Web Portals and Virtual Communities

By the late 1990s, virtual communities were selling advertising to generate revenue. Search engine sites and Web directories were also selling advertising to generate revenue. Beginning in 1998, a wave of purchases and mergers occurred among these sites. The new sites that emerged still used an advertising-only revenue generation model and included all the features offered by virtual community sites, search engine sites, Web directories, and other information-providing and entertainment sites. These portals, which you first learned about in Chapter 3, are so named because their goal is to be every Web surfer's doorway to the Web.

Advertising-Supported Web Portals and Virtual Communties

Some Web observers believe that Web portal sites could be the great revenue-generating businesses of the future. They argue that adding portal features to existing sites or converting sites to portals can be a wise business strategy. They believe that combining Web communities' sense of belonging with search engine and Web directory tools will yield Web sites with high degrees of stickiness that will be extremely attractive to advertisers.

One rough measure of stickiness is how long each user spends at the site. Figure 6-15 lists the most popular sites on the Web based on the number of users who accessed the sites from home during the month of August 2005, and Figure 6-16 shows the same information for users who accessed the sites that month using computers at work (*Note*: People who have broadband access at work and not at home often use their at-work computers for personal business during nonwork hours). The information in both figures is adapted from **Nielsen//NetRatings** reports and shows sites grouped by owner. For example, the numbers for Microsoft include activity on all sites operated by Microsoft, including people with Hotmail accounts checking their e-mail and MSN subscribers using that Web portal's services.

Owner	Millions of unique visitors	Average time per visitor (H:MM)
Microsoft	95	1:28
Time Warner	85	4:16
Yahoo!	84	2:29
Google	66	0:25
eBay	43	1:38
U.S. Government	34	0:19

Adapted from reports for August 2005 published by Nielsen//NetRatings at http://www.nielsennetratings.com/

FIGURE 6-15 Stickiness of popular Web sites accessed from home computers

Owner	Millions of unique visitors	Average time per visit (H:MM)
Microsoft	51	2:05
Yahoo!	44	3:41
Google	41	0:53
Time Warner	40	4:26
U.S. Government	31	0:27
eBay	26	2:03

Adapted from reports for August 2005 published by Nielsen//NetRatings at http://www.nielsennetratings.com/

FIGURE 6-16 Stickiness of popular Web sites accessed from work computers

Nielsen//NetRatings determines site popularity by measuring the number of unique visitors to a site. The leading sites often have more than 100 million unique visitors per month. In the figure, the site owners are not ranked by popularity, but by the average number of minutes that users spent on the sites.

Because Web portals ask their members to provide demographic information about themselves, the potential for targeted marketing is very high. Industry observers are predicting that Web portals could be one of the success stories of the second wave of electronic commerce. Microsoft, Time Warner (through its AOL division), and Yahoo! each draw a significant number of their visitors at their Web portal sites. High visitor counts can yield high advertising rates for these sites. In the boom years of the first wave, Web portals were able to obtain up-front cash payments from advertisers, which is very unusual for any kind of advertising sale. For example, the Excite search engine site paid Netscape (now a

part of Time Warner) a $70 million advance fee for two-year rights to a prominent advertising location on its Netcenter Web portal site. Other portal sites have negotiated advertising deals that included a percentage of sales generated from sales leads on the portal site.

The companies that run Web portals have added sticky features such as chat rooms, e-mail, and calendar functions—often by purchasing the companies that create those features. In addition to buying the virtual community site Tripod, Lycos purchased the online directory WhoWhere? for $133 million. In 1999 alone, Yahoo! spent over $10 billion in cash and stock to expand the range of services available on its Web portal site. This spending spree ended with the decline in online investment that occurred in 2000–2002 at the end of the first wave of electronic commerce. This downturn created serious doubts about whether even the largest and most well-known Web portals, such as Yahoo! and Excite, could survive. Many smaller portals closed. The future of the advertising-supported Web portal is uncertain at this time. Second wave portal strategies are based less on up-front site sponsorship payments and more on the generation of revenues from continuing relationships with people who use their portal sites. The larger portals that have survived are turning to mixed models that offer more stability in their revenue streams.

Mixed-Revenue Web Portals and Virtual Communities

One of the most successful Web portals is Time Warner's AOL unit, which has always charged a fee to its users and has always run advertising on its site. Many Web portals that have struggled with their advertising-supported revenue models have been moving toward AOL's strategy.

Yahoo! now charges for the Internet phone service that it originally offered at no cost. It still offers free e-mail accounts, but now sells other features, such as more space to store messages and attached files, to members who pay for the "premium" e-mail service. After years of rapid growth, Yahoo! became unprofitable when Internet advertising dropped suddenly. Terry Semel, a media executive with years of experience working for media giants Warner Brothers, CBS, and Disney, was brought in to run Yahoo! in 2001. Semel cut costs and reorganized the company, then set a goal: by 2004, Yahoo! would derive more than half of its revenue from nonadvertising sources. In 2002, Yahoo! announced a partnership with SBC to sell DSL access, which moved the company even closer to an AOL-style revenue model. Semel's strategy appears to be working. In recent years, Yahoo! has sharply increased its revenues from nonadvertising sources and is once again reporting significant profits.

Other advertising-supported Web portals are following the lead of Yahoo! in a strategy called monetizing eyeballs or monetizing visitors. **Monetizing** refers to the conversion of existing regular site visitors seeking free information or services into fee-paying subscribers or purchasers of services. Many of the portals that are conducting these monetizing campaigns are worried about visitor backlash. They are unsure how many existing visitors will stay and pay for services they had become accustomed to receiving at no cost.

Other examples of Web portals that use a mixed-revenue model are financial information sites **The Motley Fool** and **TheStreet.com**. These sites offer investment advice, stock quotes, and financial planning help. Some of the information is provided at no cost, additional information is available to subscribers who pay no fee but who are required to provide personal information, and even more information is available for a fee.

Recently, more and more industry analysts are predicting the end of the "free Web." Although the largest portal sites should be able to survive using a mixed revenue model, it is unclear how smaller portals will fare.

Internal Web Portals and Virtual Communties

A growing number of large organizations have built Web portals to provide information to their employees. Internal Web portals run on the intranets you learned about in Chapter 2. These portals can save significant amounts of money by replacing the printing and distribution of paper memos, newsletters, and other correspondence with a Web site. Organizations use internal Web portals to publish employee handbooks, newsletters, and employee benefits information.

These organizations are also finding that the internal portal Web site can become a good way of creating a virtual community among employees who are dispersed over a wide geographic area. For example, a global company could create a question and answer page (similar to the Google Answers page you learned about earlier in this chapter) for all of its networking technicians. Such a page would provide mentoring and informal help functions for the networking technician community within the company.

Many companies are adding wireless connectivity to their internal portals and using this technology to extend the reach of the portal to employees who are traveling, meeting with customers or suppliers, or telecommuting from home. These extended portals are yet another example of a second-wave combination of technology (wireless communications) with a business strategy from the first wave (internal Web portals).

Summary

In this chapter, you learned how companies are now using the Web to do things that they have never done before, such as operating auction sites, creating virtual communities, and serving as Web portals. You learned about the key characteristics of the seven major auction types, and how firms are using online auctions to sell goods to their customers and buy from their suppliers.

Although some specialty sites do conduct significant auction activities, the consumer online auction business is dominated by eBay, at least in the United States. B2B auctions give companies a new and efficient way to dispose of excess inventory, and B2B reverse auctions provide an effective procurement tool under some conditions. A number of businesses offer ancillary services to Web users who participate in online auctions. These businesses include escrow services, auction directories and information sites, auction management software for both sellers and bidders, and auction consignment sites.

The Web's ability to bring together geographically dispersed people and organizations that share narrow interests has encouraged the development of focused virtual communities. Businesses are creating virtual communities with their customers and suppliers and using these communities to sell goods and services. In the second wave of electronic commerce, individuals are increasingly using virtual communities for personal, social, and business-related interactions. Businesses are using virtual communities and blogs to attract customers to their online stores and, in the case of newspapers, to have readers participate in the creation of the site's value. Organizations are using mobile commerce to sell goods and services to users of handheld devices such as wireless PDAs and mobile phones. The major Web search engine sites evolved into Web portals by adding virtual communities and related features to their sites' offerings, but a decline in online advertising moved many portal sites to a mixed revenue model in which they have added fee-based services to monetize visitor traffic.

Companies are using internal Web portals to communicate with employees and coordinate work across various organizational units. The integration of wireless communications technologies with internal Web portals is an example of a second-wave combination of existing Web strategy with new technology.

Key Terms

Ascending-price auction
Auction consignment services
Auctioneer
Bid
Bidder
Consumer-to-business
Descending-price auction
Double auction
Dutch auction
English auction
Escrow service
First-price sealed-bid auction
Group purchasing site
Idea-based networking
Idea-based virtual communities
Intelligent software agent (software robot or bot)
Liquidation broker
Lock-in effect
Meetup
Minimum bid
Minimum bid increment
Monetizing
Online community

Open auction (open-outcry auction)
Open-outcry double auction
Participatory journalism
Private valuation
Proxy bid
Reserve price (reserve)
Reverse auction (seller-bid auction)
Reverse bid
Sealed-bid auction
Second-price sealed-bid auction
Shill bidder
Snipe
Sniping software
Social networking
Third-party assurance provider
Vickrey auction
Virtual community
Virtual learning community
Web community
Winner's curse
Wireless Application Protocol (WAP)
Yankee auction

Review Questions

RQ1. In approximately 100 words, define the term "reserve price" and explain how the use of a reserve price can affect the progress and outcome of an auction.

RQ2. Identify an industry (or a product within an industry) in which buyers would find reverse auctions to be a useful procurement tool. In about 300 words, explain why your chosen industry or product would be a good candidate for a reverse auction procurement process.

RQ3. In about 300 words, describe the services offered by an online auction escrow service. Name one advantage and one disadvantage of using this type of an escrow service.

RQ4. Some eBay users believe that the use of sniping software is unfair and that eBay should prohibit its use. In an essay of about 200 words, present facts and logical arguments that would convince eBay to prohibit the use of sniping software.

RQ5. Assume you work in the procurement department of a small aerospace parts manufacturer. Your company builds switches and relays used in airplanes to control heating and ventilation systems. The parts your company buys must meet precise specifications and the parts are not generally interchangeable; that is, your company's engineers must work with your suppliers to design specific parts for particular systems. The director of procurement has read about online reverse auctions and is interested in exploring the idea. In approximately 300 words, outline the arguments for and against using online reverse auctions at this company, then conclude with a specific recommendation.

RQ6. The future of mobile business depends on finding ways to combine wireless technologies and the Internet. To be successful, these applications must use the most convenient features of both wireless and Internet technologies. In about 300 words, outline a revenue model for a business that sells frequently updated restaurant reviews. Be specific about which parts of the business would use wireless technologies and which parts would use Internet technologies.

Exercises

E1. Use the Online Companion to examine the projects list at either the **MIT Software Agents Group Projects** site or the **Carnegie Mellon Intelligent Software Agents Lab** site. Choose a software agent technology used in one of these projects and, in approximately 200 words, describe how you could use it in an electronic commerce application.

E2. Midland University, like most metropolitan universities, faces a chronic shortage of parking spaces on campus. Each stakeholder group in the typical university community (these groups include students, faculty, administrators, staff, and visitors) believes its members should have the top priority for parking spaces. You have been assigned to a university task force to study the problem. You decide that an annual online auction of parking spaces conducted on the university's intranet could provide a solution. In about 300 words, describe the elements of an annual online auction for parking spaces at Midland University. Be sure to include provisions for disabled persons and for those university employees who do not have regular access to computers in their typical work environment (such as janitors, physical plant maintenance workers, or gardeners).

E3. Follow the links in the Online Companion for **Auction Consignment Sites** to at least two of the sites and become familiar with the services they offer. Prepare a chart that compares the services offered by two of the sites you visit. Include any important factors that a customer would evaluate when deciding which site to use, but be sure to include a comparison of prices, specific services offered, exclusions and limitations on the services, and guarantees, if any. Summarize your findings in a paragraph or two in which you indicate which site you would recommend to a friend.

E4. Use **mySimon**, **Best Web Buys**, or another Web pricing robot of your choice to find sources for a book or DVD that you want to buy. Evaluate the results provided by the robot in terms of how useful the robot was in helping you plan for your purchase. Summarize your findings in a report of approximately 200 words.

E5. You have been hired as an electronic commerce consultant to Oyster Bay, Inc., a dealer in ocean-going yachts. Oyster Bay maintains offices and marinas in major U.S. East Coast ports. The typical purchaser of an Oyster Bay yacht is a high-income business executive, a retiree, or a person of significant inherited wealth. Oyster Bay salespeople have noted that their customers are increasingly aware of the Web. Prepare a proposal for an Oyster Bay Web portal site. You do not need to design the Web pages, but your proposal should include a detailed list of features that will be included in the site design. Describe each feature in detail, and explain why you believe it should be included. For each feature, note whether it will be supplied by Oyster Bay personnel or purchased from an outside supplier. To learn more about existing yacht sales sites, you can use your favorite search engine or consult the **Carver Yachts**, **Moran Yacht & Ship**, and **YachtWorld.com** links in the Online Companion.

E6. In the chapter, there is a discussion of the stickiness of Web sites that have many visitors. **InterActiveCorp** is a company that often appears on lists of sites that have a large number of visitors or sites that have a high degree of stickiness. Visit the company's site and explore it to learn which Web sites it owns. List the names of the two InterActiveCorp sites that you believe have the highest degree of stickiness and, in about 150 words, explain why.

Cases

C1. Alibaba.com

In 1995, Jack Ma taught English in Hangzhou, China, a city near the economic center of Shanghai. Ma wanted to get into the business world, so he raised $2000 from relatives and friends to start Chinapage.com, one of the first Chinese dot-coms. He followed that experience with a job at the Ministry of Foreign Trade and Economic Cooperation. He grew frustrated with the slow pace of the government bureaucracy and left after a year to start his own company again. He placed an ad on the Internet advertising a language translation service for companies that wanted to do business in China. Within two hours, he had received six e-mailed inquiries. 60 percent of the Chinese economy is manufacturing, and 90 percent of manufacturing companies are small or medium-sized businesses. Ma began collecting information from Chinese manufacturing companies that wanted to do business internationally. He translated and organized the information, then posted it on a B2B Web portal site he named **Alibaba.com.**

Alibaba.com has always concentrated on small and medium-sized businesses (SMBs). Ma believed that global companies spend most of their efforts on doing business with large companies. He sees China (and the rest of Asia) as having a different economic structure than the United States or Europe, where the economies are dominated by large companies. Ma believes that Alibaba.com's true opportunities lie in connecting SMBs around the world with SMBs in China. He argues that SMBs seldom have any sales channels outside of their own country. To compensate, SMBs must travel extensively to meet suppliers and customers at exhibitions or trade fairs. Ma believes that Alibaba.com offers SMBs a reasonably priced alternative.

Foreign companies interested in buying from Chinese suppliers must register on Alibaba.com (buyer registration is free) before they can access the site's supplier database. Alibaba.com charges Chinese companies a membership fee of several thousand dollars for translating and listing their information. The site also lists foreign suppliers. These suppliers can list a small number of items at no charge, however, most choose to pay a small fee that pays for a credit check and allows them to be listed as TrustPass members on the site. The TrustPass designation provides assurance to Chinese companies that want to buy from these suppliers. By 2001, more than 1 million companies had registered with Alibaba.com. In 2003, the company reported its first profitable year, with net income of $12 million. Many of Alibaba.com's registered members are happy with the results they obtain, as indicated by the annual membership renewal rate, which exceeds 70 percent.

Alibaba.com, like all portal sites, suffered a setback during the 2001-2002 time period, but its fee-based revenue model allowed it to recover more quickly than portals that were dependent on advertising revenue. The company sees future growth in the continued expansion of trade between Chinese manufacturers and the rest of the world. Ma is also optimistic about the portal's potential for helping Chinese businesses connect with other Chinese businesses.

Required:

1. Alibaba.com was an early entrant into the B2B portal market in China. In about 100 words, explain how this might have created a lock-in effect, especially given the types of businesses the site attracts.

2. Alibaba.com currently charges foreign sellers an annual fee of about $400 for a TrustPass membership, but Chinese companies pay $8000 or more for their annual listings as China Gold Suppliers. In about 200 words, explain why the site has different listing charges for the two types of members and critically evaluate this practice.
3. You learned in Chapter 5 that large companies, such as General Electric and Sears, often require suppliers to follow specific rules if they want to do business (such as using EDI or even a specific EDI VAN). Alibaba.com currently focuses on connecting SMBs with each other. In about 200 words, discuss opportunities that might exist for Alibaba.com to become an intermediary in relationships between Chinese SMBs and large global companies such as General Electric and Sears.
4. In 2003, Alibaba.com launched **Taobao.com** to compete in the general consumer online auction market against eBay in China. In about 200 words, describe the advantages Alibaba.com might have over eBay in this new market, then describe the advantages eBay might have over Alibaba.com. Be sure to include a discussion of lock-in effects where appropriate.
5. In 2005, Yahoo! paid $1 billion for a 40 percent interest in Alibaba.com. Yahoo! was interested in the company's Taobao.com auction site because Yahoo! had not been as successful as it would have liked in developing its own Chinese auction site. However, Yahoo! was also interested in using Alibaba.com's strong reputation in China to help it compete with Baidu.com, the top Chinese search engine site. In about 200 words, describe the ways in which Alibaba.com's reputation could help Yahoo! compete more effectively as a search engine and Web portal in China.

Note: Your instructor might assign you to a group to complete this case and might ask you to prepare a formal presentation of your results to your class.

C2. Old Metamora

Betty Shriver is the owner of Betty's Crystal, a small shop that sells collectible glass figurines. Betty's shop carries many items that she purchased from estate sales and regional auctions, but the shop also sells new crystal figurines from manufacturers such as Baccarat, Lalique, Orrefors, and Swarovski. The shop is located in Metamora, Indiana, which is a popular tourist destination for weekend travelers in the Midwest. The town of **Old Metamora** is a small historic area in a rural setting that is less than a day's drive from seven major metropolitan areas: Chicago, Cincinnati, Columbus, Detroit, Indianapolis, Louisville, and St. Louis.

The shop is very busy on weekends and during the spring and summer months when tourists flock to Old Metamora. In the early fall, the tourist traffic slows considerably, and in the winter months, the town becomes almost deserted. Two years ago, Betty began to pick up extra business during the off season by auctioning items on **eBay**, **Amazon.com**, and **Yahoo! Auctions**. Not only did the auctions help keep inventory moving during the slow months, but Betty found that she was able to carry a wider selection of items in the store. In the past, she would see unusual items at estate sales and auctions that she feared would not sell quickly in the shop. Now Betty knows that any item that does not sell in the shop can be auctioned online quite easily. Another unexpected benefit of participating in online auctions is that Betty developed relationships with regular buyers of crystal figurines and with people who run collectibles stores in other parts of the country. Every auction involves at least two e-mails (one to confirm the final bid and another to confirm the payment). Many successful bidders also send e-mail messages to Betty

when they receive the item with questions about the item, or just to thank Betty for sending the item so quickly. Some of these e-mail exchanges continue with discussions related to crystal figurines and other collectible items.

Betty's online auction experiences prompted her to consider expanding the online portion of her business. She has heard (from other shop owners) that eBay allows people to create online stores within the eBay site and that Amazon.com offers a similar service called zShops. She is also interested in creating a Web site that contains photos and descriptions of popular crystal figurines with additional information about how they are made. Betty also wants to include a list of figurines that are no longer manufactured (which makes them more valuable) and a guide to buying collectible crystal figurines that could help her customers and bidders on her auctions make more informed decisions as they add to their collections. She believes that such a site could attract a large number of people interested in crystal figurines. She wants to find ways to direct these site visitors to her auctions and her proposed Web store. Betty has hired you as a consultant to build on her ideas and to help her develop an expansion strategy for her online business activities.

Required:

1. Search for information about Amazon.com's zShops and eBay Stores on the Web and in your library that will help you make a recommendation to Betty regarding which alternative would provide the best avenue for her online business expansion. Support your recommendation with relevant facts, including specific costs of operating each type of store and specific benefits that Betty could gain by using one or the other. Summarize your recommendation and supporting facts in a report to Betty of about four double-spaced pages.
2. Outline the elements that Betty should include in a virtual community site that meets her stated goals. For each element, explain why it would help create the community, and describe any difficulties that Betty might encounter in building and maintaining that element. Summarize the virtual community outline in a report to Betty of about four double-spaced pages.

Note: Your instructor might assign you to a group to complete this case and might ask you to prepare a formal presentation of your results to your class.

For Further Study and Research

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