

E-commerce
business. technology. society.
Fourth Edition

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Chapter 11

Social Networks, Auctions, and Portals

Social Network Fever Spreads to the Professions

Class Discussion

- How has the growth of social networking enabled the creation of more specific niche sites?
- What are some examples of social network sites with a financial or business focus?
- Describe some common features and activities on these social networking sites.
- What feature of social networks best explains their popularity?

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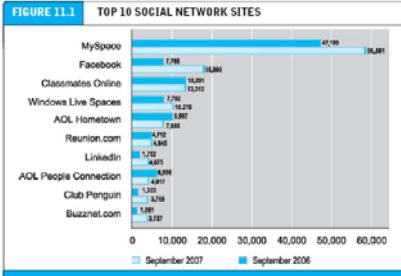
Social Networks and Online Communities

- Social networks involve:
 - A group of people
 - Shared social interaction
 - Common ties among members
 - People who share an area for some period of time
- Online social network: area online where people who share common ties can interact with one another
- Portals and social networks moving closer together as portals add social networking features
- Examples: MySpace, Friendster, Flickr, Facebook

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Top 10 Social Network Sites

Figure 11.1, Page 699



Site	September 2007	September 2006
MySpace	47,998	18,881
Facebook	17,788	11,888
Classmates Online	13,291	13,310
Windows Live Spaces	7,776	18,219
AOL Homelown	4,776	3,687
Reunion.com	4,741	7,888
LinkedIn	1,712	8,017
AOL People Connection	4,917	4,918
Club Penguin	1,513	2,746
Buzznet.com	1,381	3,127

SOURCE: Based on data from eMarketer, Inc., 2007a; Nielsen/NetRatings, 2007.

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Types of Social Networks And Their Business Models

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

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Social Network Features and Technologies

Table 11.2, Page 703

TABLE 11.2 SOCIAL NETWORK FEATURES AND TECHNOLOGIES	
FEATURE	DESCRIPTION
Profiles	Users can create Web pages that describe themselves on a variety of dimensions.
Friends network	Ability to create a linked group of friends.
Network discovery	Ability to find other networks and find new groups and friends.
Favorites	Ability to communicate favorite sites, bookmarks, content, and destinations.
E-mail	Send e-mail within the social network sites to friends.
Storage	Storage space for network members, content.
Instant messaging	Immediate one-to-one contact with friends through the community facility.
Message boards	Posting of messages to groups of friends, and other groups' members.
Online polling	Polling of member opinion.
Chat	Online immediate group discussion; Internet relay chat (IRC)
Discussion groups	Discussion groups and forums organized by topic.
Experts online	Certified experts in selected areas respond to queries.
Membership management tools	Ability of site managers to edit content, and dialog; remove objectionable material; protect security and privacy.

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Insight on Technology: Social Operating Systems: Facebook vs. Google

Class Discussion

- What does Mark Zuckerberg, Facebook's CEO, mean by "social operating system?"
- Why have Facebook applications become so popular? Do they have any limitations?
- How has Google responded? Which core functions can their programs perform?
- What are the advantages of Google's software over 'closed worlds' like Facebook?

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Auctions

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

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Defining and Measuring the Growth of Auctions and Dynamic Pricing

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

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

Class Discussion

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

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

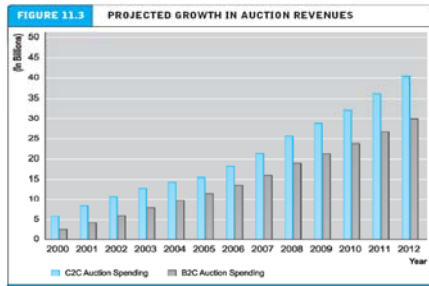
- Most widely known auctions are consumer-to-consumer (C2C) auctions in which auction house is simply an intermediary market maker
- 2007: C2C auction sites generated \$21 billion; B2C auction sites, \$16 billion

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Projected Growth in Auction Revenues

Figure 11.3, Page 710



SOURCES: Based on data from eMarketer, 2005; Jupiter Research, 2001; authors' estimates.

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Benefits of Auctions

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

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Risks and Costs of Auctions for Consumers and Businesses

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

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Internet Auction Basics

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

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Internet Auction Basics (cont'd)

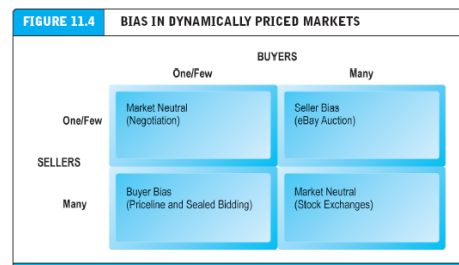
- Price Allocation Rules
 - Uniform pricing rule: Multiple winners who all pay the same price
 - Discriminatory pricing rule: Winners pay different amount depending on what they bid

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Bias in Dynamically Priced Markets

Figure 11.4, Page 715



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Types of Auctions

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

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Types of Auctions (cont'd)

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

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Types of Auctions (cont'd)

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

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When to Use Auctions (And For What) In Business

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

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Seller and Consumer Behavior at Auctions

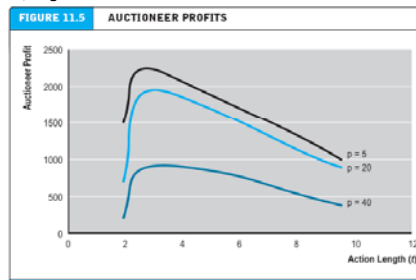
- Seller profits: function of arrival rate, auction length, and number of units at auction
- Auction prices not necessarily the lowest
 - Reasons include herd behavior (tendency to gravitate toward, and bid for, auction listing with one or more existing bids)
- Unintended results of participating in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

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Auctioneer Profits

Figure 11.5, Page 724



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

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When Auction Markets Fail: Fraud and Abuse in Auctions

- Auction markets are particularly prone to fraud
- 2007 IC3 statistics:
 - 45% of Internet fraud complaints concerned online auctions
 - Median lost: \$600
 - Most common fraudulent payment mechanism: money orders and credit cards

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The Growth and Evolution of Portals

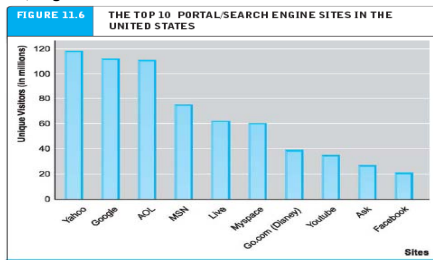
- Portals: most frequently visited sites on the Web
- Gateways to the more than 50 billion Web pages
- Most of top portals today began as search engines
- Today provide navigation of the Web, commerce, and content (own and others')

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Top 10 Portal/Search Engine Sites in the United States

Figure 11.6, Page 729



SOURCE: Based on data from eMarketer, Inc., 2007c.

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Insight on Business: Battle of the Portals Class Discussion

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

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Types of Portals: General Purpose and Vertical Market

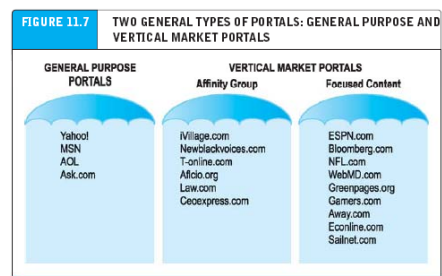
- General purpose portals: Attempt to attract very large general audience and then retain it on-site by providing in-depth vertical content channels
- Vertical market portals: Attempt to attract highly focused, loyal audiences with deep interest in either community (affinity group) or specialized content

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

Figure 11.7, Page 732



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Portal Business Models

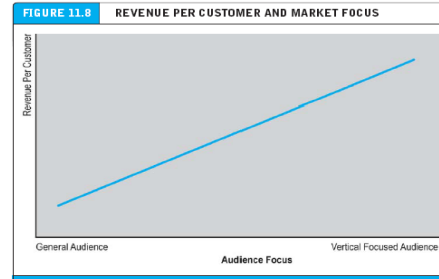
- Major portal revenue sources include:
 - ISP services (AOL, MSN)
 - General advertising revenue/tenancy deals
 - Commissions on sales
 - Subscription fees

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Revenue per Customer and Market Focus

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E-commerce in Action: Yahoo! Inc.

- Vision: Global Internet communications, commerce and media company
- Earns money from advertising, premium content sales, commissions and corporate services
- Recent financial performance: Revenues up significantly, but cost of revenues, gross margins, operating margins and earnings down in 2006
- Business strategy: growth through acquisition
- Future prospects depend on matching Google on search and extending its lead on content

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