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?
Social Networks and Online Communities

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

- Area online where people who share common ties can interact with one
- Involve:
  - A group of people
  - Shared social interaction
  - Common ties among members
  - People who share an area for some period of time
- e.g. MySpace, Friendster, Flickr, Facebook
- Portals and social networks moving closer together as portals add social networking features and community sites add portal-like services
Top 10 Social Network Sites

Figure 11.1, Page 699


Unique Monthly Visitors (in millions)

May 2007

May 2008
Types of Social Networks And Their Business Models

- Based on sponsorship
  - Intra-firm communication B2E
  - Inter-organizational B2B
  - People sharing interest P2P
Types of Social Networks And Their Business Models

- Early networking sites relied on subscriptions; today social networks rely primarily on advertising.

- General communities:
  - Offer opportunities to interact with general audience organized into general topics.
  - Advertising supported by selling ad space on pages and videos.

- Practice networks:
  - Offer focused discussion groups, help and knowledge related to area of shared practice.
  - May be profit or non-profit; rely on advertising or user donations.
Types of Social Networks And Their Business Models (cont’d)

- Interest-based social networks:
  - Offer focused discussion groups based on shared interest in some specific subject
  - Usually advertising supported

- Affinity communities:
  - Offer focused discussion and interaction with other people who share same affinity (self or group identification)
  - Advertising and revenues from sales of products

- Sponsored communities:
  - Created by government, non-profit or for-profit organizations for purpose of pursuing organizational goals
Social Network Features and Technologies

- Profiles
- Friends network
- Network discovery
- Favorites
- E-mail
- Storage
- Instant messaging

- Message boards
- Online polling
- Chat
- Discussion groups
- Experts online
- Membership management tools
### Table 11.2: Social Network Features and Technologies

<table>
<thead>
<tr>
<th>Feature</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profiles</td>
<td>Users can create Web pages that describe themselves on a variety of dimensions.</td>
</tr>
<tr>
<td>Friends network</td>
<td>Ability to create a linked group of friends.</td>
</tr>
<tr>
<td>Network discovery</td>
<td>Ability to find other networks and find new groups and friends</td>
</tr>
<tr>
<td>Favorites</td>
<td>Ability to communicate favorite sites, bookmarks, content, and destinations.</td>
</tr>
<tr>
<td>E-mail</td>
<td>Send e-mail within the social network sites to friends.</td>
</tr>
<tr>
<td>Storage</td>
<td>Storage space for network members, content.</td>
</tr>
<tr>
<td>Instant messaging</td>
<td>Immediate one-to-one contact with friends through the community facility.</td>
</tr>
<tr>
<td>Message boards</td>
<td>Posting of messages to groups of friends, and other groups’ members.</td>
</tr>
<tr>
<td>Online polling</td>
<td>Polling of member opinion.</td>
</tr>
<tr>
<td>Chat</td>
<td>Online immediate group discussion; Internet relay chat (IRC)</td>
</tr>
<tr>
<td>Discussion groups</td>
<td>Discussion groups and forums organized by topic.</td>
</tr>
<tr>
<td>Experts online</td>
<td>Certified experts in selected areas respond to queries.</td>
</tr>
<tr>
<td>Membership management</td>
<td>Ability of site managers to edit content, and dialog; remove objectionable material; protect security and privacy.</td>
</tr>
</tbody>
</table>
The Future of Social Networks

- Today, top 10 General networking sites
- Portals and general websites will have social networking functionality built-in
- Network aggregators
ProfileFly - Control + Promote Your Entire Online Identity

HOME | SIGN UP | SEARCH | BANNERS | ABOUT

Tie all your Profile, Contact, and Bookmark links together in one place, then share them. SIGN UP quickly to create your new URL so you can promote and share your entire Online Identity.

Intered in working with ProfileFly? Contact Us below!

Profile Streams added for the following:

- digg
- del.icio.us
- lost.fm
- twitter
- flickr

and many more...

Bruce Anthony
Sites Listed: del.icio.us | Facebook | MySpace | LinkedIn | My Personal Site | My Business Site | Twitter | digg | Other | Other
Contacts: AIM | Email | GTalk | ICQ | MSN | Skype | Yahoo Messenger

Hunter Coles
Contacts: Email | Skype

Jakob Mayer
Sites Listed: Facebook | Twitter
Contacts: AIM | GTalk | MSN | Yahoo Messenger | Skype | Email

Fred Hanselmann
Sites Listed: Friends
Contacts: Facebook | Twitter

Albert Fang
Sites Listed: Blogger | Blogspot

Slide 11-12
Online Auctions

- Online auction sites among the most popular consumer-to-consumer sites on the Internet
- eBay: Market leader
- Several hundred different auction sites in U.S. alone
- Established portals and online retail sites increasingly are adding auctions to their sites
Defining and Measuring the Growth of Auctions and Dynamic Pricing

- Auctions—markets in which prices are variable and based on the competition among participants who are buying or selling products and services.

- Dynamic pricing
  - Airline tickets, coupons, college scholarships
  - Prices based on demand characteristics of customer and supply situation of seller

- Many types of dynamic pricing
  - Bundling
  - Trigger pricing
  - Utilization pricing
  - Personalization pricing
Defining and Measuring the Growth of Auctions and Dynamic Pricing (cont’d)

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

Dynamic Pricing: Is This Price Right?
Class Discussion

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

Figure 11.3, Page 724

SOURCES: eMarketer, 2005; Jupiter Research, 2001; authors’ estimates.
Benefits of Auctions

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

- For market-makers
  - No inventory, warehouse costs
  - No fulfillment costs
Risks and Costs of Auctions for Consumers and Businesses

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

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

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

- Public vs. private information
  - Prices bid may be kept secret
    - Bid rigging
  - Open markets
    - Price matching
## Bias in Dynamically Priced Markets

Figure 11.4, Page 729

<table>
<thead>
<tr>
<th>SELLERS</th>
<th>BUYERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>One/Few</td>
<td>Market Neutral (Negotiation)</td>
</tr>
<tr>
<td>Many</td>
<td>Buyer Bias (Priceline and Sealed Bidding)</td>
</tr>
</tbody>
</table>
Types of Auctions

- English auctions:
  - Easiest to understand and most common
  - Single item up for sale to single seller
  - Highest bidder wins

- Traditional Dutch auction:
  - Uses a clock that displays starting price
  - Clock ticks down price until buyer stops it
Types of Auctions (cont’d)

- **Dutch Internet auction:**
  - Public ascending price, multiple units
  - Final price is lowest successful bid, which sets price for all higher bidders

- **Name Your Own Price Auctions**
  - Pioneered by Priceline
  - Users specify what they are willing to pay for goods or services and multiple providers bid for their business
  - Prices do not descend and are fixed
<table>
<thead>
<tr>
<th>TABLE 11.5</th>
<th>A MULTI-UNIT DUTCH INTERNET AUCTION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CLOSING AUCTION DATA</strong></td>
<td></td>
</tr>
<tr>
<td>Lot number</td>
<td>8740240</td>
</tr>
<tr>
<td>Total Number of Units</td>
<td>10</td>
</tr>
<tr>
<td>Description</td>
<td>HP Pavilion DV7T Laptop; Win Vista; Intel Core 2 Duo 2.1GHz, 17” widescreen; 4 GB memory; 320 GB hard drive</td>
</tr>
<tr>
<td>Reserve Price</td>
<td>None</td>
</tr>
<tr>
<td><strong>BIDDER</strong></td>
<td>DATE</td>
</tr>
<tr>
<td>JDMTKIS</td>
<td>10/25/09</td>
</tr>
<tr>
<td>KTTX</td>
<td>10/25/09</td>
</tr>
<tr>
<td>JB505</td>
<td>10/25/09</td>
</tr>
<tr>
<td>VAMP</td>
<td>10/25/09</td>
</tr>
<tr>
<td>DPVS</td>
<td>10/25/09</td>
</tr>
<tr>
<td>RSF34</td>
<td>10/25/09</td>
</tr>
<tr>
<td>CMCAL</td>
<td>10/25/09</td>
</tr>
</tbody>
</table>
Types of Auctions (cont’d)

- Group Buying Auctions (Demand Aggregators)
  - Facilitate group buying of products at dynamically adjusted discount prices based on high volume purchases
  - Based on two principles
    - Sellers are more likely to offer discounts to buyers purchasing in volume
    - Buyers increase their purchases as prices fall

- Professional Service Auctions—Elance.com

- Auction Aggregators—use Web crawlers to search thousands of Web auction sites and accumulate information on products, bids, auction duration, etc.
  - Unlicensed aggregators opposed by eBay
When to Use Auctions (And For What) In Business

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

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

Figure 11.5, Page 724

When Auction Markets Fail: Fraud and Abuse in Auctions

- Markets fail to produce socially desirable outcomes in four situations: information asymmetry, monopoly power, public goods, and externalities.

- Auction markets prone to fraud
  - Most common: Failure to deliver, failure to pay

- 2008 IC3 statistics:
  - 35.7% of Internet fraud complaints concerned online auctions; median lost: $484
The Growth and Evolution of Portals

- Portals: most frequently visited sites on the Web
- Gateways to the 40 - 50 billion Web pages
- Most of top portals today began as search engines
- Today provide navigation of the Web, commerce, and content (own and others’)
- Enterprise portals an important function within organizations
Top 5 Portal/Search Engine Sites in the United States

Figure 11.6, Page 743

SOURCE: Compete.com, 2008; author’s estimates
Insight on Business

Battle of the Portals

Class Discussion

- How many different kinds of portals are there?
- How do portals make money?
- 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?
Types of Portals: General Purpose and Vertical Market

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

- Vertical market portals:
  - Attempt to attract highly focused, loyal audiences with specific interest
    - Community (affinity group); e.g. iVillage.com
    - Focused content; e.g. ESPN.com
New threats to oil cleanup efforts

Winds, high tides, and waves may push the oil spill deep into Louisiana waterways. ▷ Lakes, wildlife at risk

1. Gulf oil spill spells uncertainty for new drilling ▷ Photos
2. Two U.S. citizens in New York charged with aiding al-Qaeda
Two General Types of Portals: General Purpose and Vertical Market Portals

Figure 11.7, Page 747

**GENERAL PURPOSE PORTALS**
- Yahoo!
- MSN
- AOL
- Ask.com

**VERTICAL MARKET PORTALS**

*Affinity Group*
- iVillage.com
- Newblackvoices.com
- T-online.com
- Aflcio.org
- Law.com
- Ceoexpress.com

*Focused Content*
- ESPN.com
- Bloomberg.com
- NFL.com
- WebMD.com
- Greenpages.org
- Gamers.com
- Away.com
- Econline.com
- Sailnet.com
Portal Business Models

- ISP services (AOL, MSN)
  - Provide Web access, e-mail for monthly fee

- General advertising revenue
  - Charge for impressions delivered

- Tenancy deals
  - Fixed charge for number of impressions, exclusive partnerships, “sole providers”

- Commissions on sales
  - Sales at site by independent providers

- Subscription fees
  - Charging for premium content
Revenue per Customer and Market Focus

Figure 11.8, Page 749
E-commerce in Action: Yahoo! Inc.

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