

Chapter 6

**Web Auctions,
Virtual Communities,
and Web Portals**

Contents

In this lecture, we will look at:

- **Origins and key characteristics of the six major auction types**
- **Strategies for Web auction sites and auction-related business**
- **Virtual communities and portals**

Origins of Auctions

- Auctions became common activities in 17th-Century England.
- The 18th Century saw the birth of two British auction houses – Sotheby's in 1774 and Christie's in 1766.
- In an auction, a seller offers an item up for sale, but does not establish a price.
- Potential buyers are given information about the item or some opportunity to examine the item; they can then offer bids.

Origins of Auctions

English Auctions

- Bidders publicly announce their successive higher bids until no higher bid is forthcoming in the English auction.
- The auctioneer pronounces the **item sold to the highest bidder** at that bidder's price.
- An English auction is an **open auction** because the bids are **publicly announced**.
- An English auction has a minimum bid or **reserve price**.

Yankee Auctions

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

Under bidders choose the **balance** at their top price.

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.
- Dutch auctions are also called descending-price auctions.
- **Successful bidder selects the quantity required** and auction resumes.
- Dutch auctions are particularly good for moving large numbers of commodity items quickly.

First-Price Sealed-Bid Auctions

- In sealed-bid auctions, bidders submit their sealed bids independently to auctioneer and are usually **prohibited from sharing information with each other.**
- In a first-price sealed-bid auction, auctioneer opens sealed bids at close of bidding and **highest (or lowest) bidder wins.**
- Example, property sales in Scotland (highest bidder wins) and tenders for services (lowest bidder wins)

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.
- Second-price sealed-bid auctions are commonly called **Vickrey auctions**.

Double Auctions

- In a double auction, buyers and sellers each submit combined price-quantity bids to an auctioneer.
- The auctioneer matches the sellers' offers to the buyers' offers until all the quantities offered for sale are sold to buyers.
- Double auctions can be operated in either sealed-bid or open-outcry formats.
- Can be used for company flotations

Six 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 <i>second</i> -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.

Figure 6-1

Key characteristics of six major auction types

Auction Overview

- 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 page.
- Web auctions can provide a general auction site that has sections devoted to specific interests.

Web Auctions and Related Businesses

- Web auctions are **one of the fastest-growing segments of online business today.**
- **Business analysts predict that Web auctions will account for 40% of all electronic commerce by 2004.**
- **Three broad categories of auction Web sites are emerging:**
 - **general consumer auctions,**
 - **speciality consumer auctions and**
 - **business-to-business auctions.**

General Consumer Auctions

- One of the most successful consumer auction Web sites is eBay.
- The eBay home page includes links to categories of items.
- Sellers pay eBay a listing fee and a sliding percentage of the final selling price.
- Buyers pay nothing to eBay.

General Consumer Auctions

- The most common format used on eBay is a computerised version of the English auction.
- eBay own PayPal.com which offers secure settlement of payments after an auction and also other payments
- eBay expanded to merchandising via Half.com
- eBay has also spawned new businesses, [AuctionIt](#)
- Portal sites, such as Yahoo!, Amazon and Excite have created auctions

General Consumer Auctions

- **Times Mirror started Auction Universe in 1997 and sold it in 1998 to the Classified Ventures. It then closed in August 2000.**
- .

Success of eBay Auctions

- Ratings of buyers and sellers
- PayPal for settlements
- Tracking of bids on selected lots
- Email alerts when you are outbid
- Other features??

General Consumer Auctions

- Amazon.com has also expanded its business to include auctions.
- Amazon's 'Auction Guarantee' agreed to reimburse any buyer not satisfied with listed merchandise that cost \$250 or less.
- A third party 'escrow service' holds the buyer's payment until he or she receives and is satisfied with the purchased item, similar to PayPal.

Speciality Consumer Auctions

- Some Web auction sites exist to meet the needs of specialty market segments.
- The CNET.com technology portal site is devoted to computers.
- Golf Club Exchange Web auction site is for golfers and a problem

Business-to-Business Web Auctions

- **Business-to-business auctions evolved to meet a specific need, such as handling excess inventory.**
- **Large companies may create their own auction sites that sell excess inventory.**
- **A third-party Web auction site takes the place of the liquidation broker and auctions excess inventory.**

Business-to-Business Auctions

- This whole area has almost entirely disappeared.
- Ingram Micro now auctions those items to its established customers through the Auction Block site.
- CompUSA builds its own auction site to dispose of obsolete inventory.
- Examples of third-party Web auction sites are 'Auction IT' for computer equipment, 'Going, Going...Sold!' for lab equipment, 'FastParts.com' for electronic components. **ALL Gone??**

Auction-Related Services

- A common concern among people bidding in Web auctions is the reliability of the sellers.
- When purchasing high-value items, buyers can use an escrow service to protect their interests.
- Escrow services, such as [Paypal.com](https://www.paypal.com) (now owned by eBay) and [SafeBuyer.com](https://www.safebuyer.com), are examples.
- Another service offered by some firms on the Web is a directory of auctions, such as [Auctionguide.com](https://www.auctionguide.com) and the “Auction Watch” sites.

Seller-Bid Auctions and Group Purchasing Sites

- Another auction model, in which sellers bid the prices at which they are willing to sell, is called a reverse auction.
- On a group purchasing site, the seller posts an item with a price. As individual buyers enter bids on an item, the site can negotiate a better price with the item's provider.
- [Respond.com](#), [lastminute.com](#) and [Priceline.com](#) are examples.
- Many of the marketplaces that businesses are creating to conduct B2B transactions include auctions and reverse auctions.

Seller-Bid Auctions and Group Purchasing Sites

Virtual Communities

- **Most Web communities are business-to-consumer strategy implementations.**
- **Some successful B2B virtual communities have emerged.**

Virtual Community and Portal Strategies

- A virtual community is a gathering place for people and businesses that do not have a physical existence.
- Virtual communities exist on the Internet in various forms, including Usenet newsgroups, chat rooms, and Web sites.
- Virtual communities help companies, customers, and suppliers to plan, collaborate, transact business, and interact in ways that benefit all of them.
- Coin collectors are attracted to portals, such as Coin Universe.

Virtual Community and Portal Strategies

- **Three key elements are required to make a virtual trading community:**
 - **Cellular-satellite (mobile) communications technology**
 - **Software agents**
 - **Electronic marketplaces**

Mobile Commerce

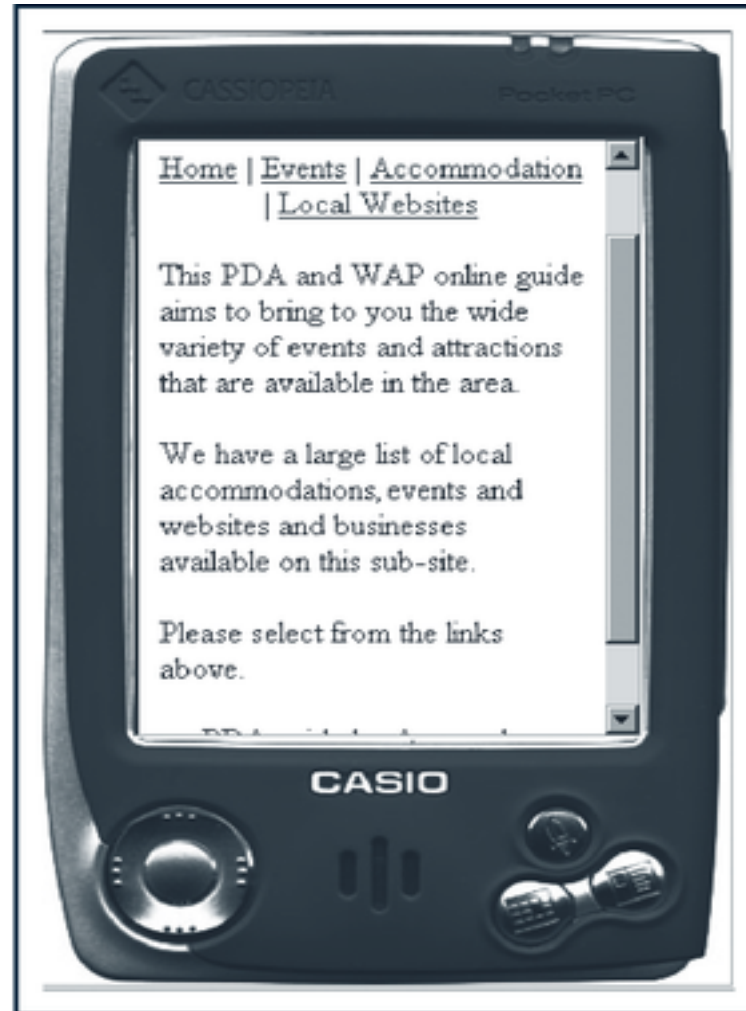


Figure 6-10 *Web page displayed on a PDA*

Intelligent Software Agents

Electronic Marketplace

Early Web Communities

- One of the first Web communities was the 'WELL' community.
- Member of the WELL pay a monthly fee to participate in its forums and conferences.
- In 1995, Beverly Hills Internet opened a virtual community site.

Web Community Consolidation

- Virtual communities for consumers can continue as money-making propositions, or at least cover their expenses if they offer something sufficiently valuable to justify a **charge for membership**.
- Most virtual communities have been **unable to support themselves**.
- Most virtual communities have **closed or bought by** companies like **Yahoo!, Amazon and eBay**.

Web Portal Strategies

- By the late 1990s, virtual communities were selling advertising to generate revenue.
- Search engine, entertainment, and Web directory sites 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 communities, search engines sites, Web directories, information and entertainment sites.

Advertising-Supported Web Portals

- Many Web observers believed that Web portal sites would be the great revenue-generating businesses of the future.
- Adding portal features to existing sites was a common business strategy.
- It was expected to generate stickiness among users.

Advertising-Supported Web Portals

Name	Minutes per unique visitor	Millions of unique visitors
eBay	53	9
Yahoo!	34	34
MSN	26	33
AOL	11	27
Netscape	11	6
Gator	11	5
Lycos	10	8
Google	7	11
Amazon	7	6
Microsoft	5	24

Adapted from reports for June 4, 2002 published by Nielsen//NetRatings at <http://www.nielsennetratings.com/>

Figure 6-14 *Stickiness of popular Web sites accessed from at-home computers*

Advertising-Supported Web Portals

Name	Minutes per unique visitor	Millions of unique visitors
eBay	48	6
Yahoo!	45	22
MSN	38	21
Netscape	16	6
AOL	15	10
CNN	15	6
Lycos	12	5
Google	10	10
Amazon	8	7
Microsoft	6	16

Adapted from reports for June 4, 2002 published by Nielsen//NetRatings at <http://www.nielsennetratings.com/>

Figure 6-15

Stickiness of popular Web sites accessed from at-work computers

Web Portal Strategies

- Industry observers predicting commercial success for Web portals may not be correct. Search engines give greater control to users when searching.
- The companies that run Web portals certainly believe in the power of portals.
- Many large organizations have built internal Web portals to provide information to their employees. This creates an online community and saves significant amounts of money that would normally be spent on printing and distributing memos.

Mixed-Model Web Portals

- One of the most successful Web portals is AOL, which has always charged a fee to its users and which ran advertising on its site. It now has no advertising on its site. It does however have the AOL Shopping Portal
- Many Web portals that are now struggling with their advertising-supported revenue models have been moving gradually towards AOL's strategy.
- AOL were bought by Time Warner to unite distribution and content – so far it has the synergy has not worked
- Yahoo! now charges for the Internet phone service that had been free. Although Yahoo! still offers free e-mail accounts, it now sells other features.
- MSN is now charging for Hotmail add-on services

Summary

- **In this lecture, we have looked at:**
- **Origins and key characteristics of the six major auction types**
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- **Virtual communities and portals**