Imagine the fun you could have following the winding roads and lush hills of beautiful Chianti, Italy, driving your own Vespa motor scooter. They call it “la dolce vita”—the sweet life. Stay for a week at the posh Hotel Vignale in Radda-in-Chianti. Enjoy the exquisite cuisine, fine wine, and deluxe rooms and take a guided tour of museums, castles, and private estates. This trip has been named by Fortune as one of the top 18 unique things to do in the world. Interested? You can bid on this wonderful tour at Ualmileageplus.com using your United Airlines loyalty program frequent flyer miles. The current bid is 656,000 miles. Seems a little steep? You can also bid on a Napa Valley balloon tour for two (46,000 miles) or a Nikon 8 megapixel camera (195,000 miles).

The Ualmileageplus.com Web site is just one of many auction sites now being offered by a variety of companies, from airlines to retailers to consumer products manufacturers. For airlines, the auctions are a way to increase customer involvement in loyalty programs and extend the value of airline miles for customers. By allowing customers to bid on other goods and services, UAL is making frequent flyer miles more fungible and more useful. In the retail sector, auctions have taken off as a way to optimize returns on discontinued merchandise. Sam’s Club is a good illustration.

At Sam’s Club, everything is big. A subsidiary of Wal-Mart, Sam’s Club is a chain of “big box,” members-only warehouse stores. In 2005, it has over 46 million members who paid from $30 to $100 to join the club. Members can buy food and general merchandise by the case at any one of its 555 plus warehouse stores. Sam’s Club caters to businesses, contractors, and the general public by offering near-wholesale prices on a wide range of merchandise. Like most retailers, until recently, Sam’s Club sold out-of-season and overstock items to liquidators for pennies on the dollar, or offered them to customers at clearance prices little over their costs. One challenge facing Sam’s Club is the seasonal nature of their business, with most sales coming in the fourth quarter, depending on holiday spending by small businesses. Auctions offered a possible solution to the seasonality of sales and to the low returns that clear-
ance sales generate. Sam’s Club saw a six-fold increase in traffic at its pre-existing online site soon after it announced the auctions. The company views the online auctions as a more profitable alternative to clearance sales and liquidators.

Sam’s Club opened its auction site to existing club members, offering both standard rising-price English auctions and falling-price Dutch auctions. Using sales data from its central data warehouse, the company selects a wide range of items from computers to baseball gloves, televisions, and air compressors, and sells them on its auction site using dynamic pricing mechanisms. Certain items are highlighted each day to generate interest and encourage bidding. Sam’s Club has found that general consumers are attracted to rising-price English auctions, where the price rises as customers bid, and the highest bidder wins. Businesses, on the other hand, are attracted to falling-price Dutch auctions, where prices of items decrease at a set rate over a period of time until a buyer jumps in to make the purchase.

At the other end of the spectrum from big box store auctions such as Sam’s Club is Woot.com. Woot’s auction offers a single product from a single manufacturer. The benefit to sellers is that all the attention is on their product. The benefit to buyers is lower prices: generally, manufacturers are strongly motivated to close out a line of goods and set the price accordingly. In addition, there is a strong user community on this trading platform which focuses on the product for sale that day, and post comments on the value of the product. Woot.com currently has about 3.5 million monthly visitors.

Woot and Sam’s Club auctions are a small part of an explosion in the use of auctions to promote products, sell off remaindered and out-of-date goods, introduce new products, reward customers and employees through reward programs, and create interactive one-to-one relationships with consumers. This new field is referred to as “auction marketing.” In fact, consumer interest in auctions is so high that it is seen by many marketers as a golden opportunity to take advantage of a powerful pop-culture trend. With over 62 million visitors a month, eBay draws nearly twice as much traffic as the leading online retailer Amazon. According to data from the Pew Internet & American Life Project, 17% of Internet users (about 25 million people) have sold things online. More than 25% of all B2C e-commerce in 2005 took place through auctions. eBay has entered into deals with Sotheby’s, Priceline, and Sears to keep its virtual shelves stocked with goods for auction. Through its purchase of FairMarket Inc., eBay is promoting the idea of using auctions to market products and run loyalty programs, and in the process, create new auctions for its own site. For instance, when Dr Pepper/SevenUp launched a new green caffeinated beverage called chin, it auctioned off the first 31 cases. In each case was a special award for successful bidders, ranging from tickets to the Grammy Awards to certificates of authenticity and T-shirts. The auction raised over $10,000, which was donated to a non-profit group. Continental Airlines, Starwood Hotels, New Line Cinema, CompUSA, Dell, Compaq, Kellogg, and ShopNBC are also using eBay’s trading platform, either to run auctions on their own sites or to run eBay auctions. Auction marketing is a boon for data mining because it produces fairly precise information on the behavior of customers who collect loyalty points in one customer contact, and then go to a company-sponsored auction to bid for items.
DYNAMIC PRICING: IS THIS PRICE RIGHT?

How do you set the price for goods on the Internet? Following an ancient Phoenician formula, most retailers calculate costs and multiply by two to come up with a price. And then, if the goods don’t sell, the markdowns start until the prices fall to just above the cost of maintaining the inventory until next year, and then the goods are sold to bargain resellers. These methods worked, but they left money on the table that merchants with paper-thin margins could have used to pump profits. On the other hand, for those consumers looking for real bargains, there’s nothing like last year’s model.

Now there are a host of online and offline dynamic pricing tools that can calculate what prices the market will bear at any given moment, for any given personal situation of the consumer. With new Web-based tools, there’s a perfect price for every time of day, every hour, and for every customer. Hold on to your wallets!

There are many different kinds of dynamic pricing. Time-based dynamic pricing adjusts the price to different points in the product life cycle, charging more in the beginning with a new product because many customers want the latest fashions, music, literature, computers, and other innovations. Peak-load dynamic pricing adjusts prices to times of the day when the supply is relatively fixed. Clearance dynamic pricing is used when products lose value over time. All types of dynamic pricing segment the market according to the willingness of customers to pay through different channels, at different times, and with different amounts of effort.

Web-based dynamic systems developed by SAP, DemandTec Inc., Hewlett-Packard, and General Electric sift through massive databases crammed with up-to-date information on orders, promotions, product revenues, and stock levels in warehouses. Based on this information, a pricing plan is developed for nearly all products. On the Web, menu costs—the cost of adjusting prices—are very low, and pricing plans can be implemented across the country nearly instantaneously.

In the future, for offline physical stores, the dynamic pricing industry has solutions also: radio frequency tagging of price stickers in stores and electronic shopping cart screens attached to every physical shopping cart. Gartner estimates that by 2006, 50% of the Global 2000 retailers will have adopted dynamic pricing as their dominant pricing model.

DHL Worldwide Express used to establish its prices the old-fashioned way—one product, one price, across the nation and the world. Unfortunately, DHL’s prices were often higher than those of rivals FedEx and UPS. “We knew we had to bring prices down, but didn’t know by how much,” says Aman Adinew, DHL’s director of pricing and revenue management. To find out how to price products, DHL purchased dynamic pricing software from Zilliant Inc. in Austin, Texas. The system loaded in various test prices for services, including the prices of competitors. Then the system offered Web and telephone customers seeking rate information a number of different prices. DHL learned how low it needed to go in prices but still make a profit. Now DHL turns 25% of callers and Web queries into customers, up from 17% before, revenue is up 13%, and gross margins have jumped 5.4%.

Dynamic pricing has its opponents, such as consumer groups and individual consumers who oppose the idea of being exploited based on their personal situations. A June 2005 study by the Annenberg Center at the University of Pennsylvania found that nearly two-thirds of those surveyed (continued)
believed incorrectly that it was illegal for online retailers to charge different people different prices. Almost 90% strongly objected to the idea of online stores charging people different prices for the same products based on information collected about their shopping habits. For instance, in September 2000, Amazon.com found itself in the midst of a public relations nightmare when customers in online chat rooms discovered that they had been charged different prices for the same DVDs. Amazon founder Jeff Bezos denied that the incongruent prices resulted from gathering customer purchasing and behavioral data, and claimed instead that they were simply the result of random price testing to determine the correct price point for the products. Amazon was forced to apologize and issue refunds to approximately 7,000 customers.

Although some consumers become irate when they are charged more for a product than others, other reports on dynamic pricing have concluded that customers are also willing to pay more for quality and superior service, whether perceived or real. For instance, most customers are willing to pay for overnight shipping at a high price. It appears that some forms of dynamic pricing are acceptable, and others not. For instance, most book buyers accept the idea that a hardcover book will be issued first at a higher price than cheaper paperbacks. Dynamic pricing is least valuable when customer demand for products is predictable and when the willingness to pay is similar for all customers. For instance, there is not much dynamic pricing in the textbook market, but in the fiction market where demand is less certain, competitive dynamic pricing is widespread. Airlines have built a powerful reservation system that is capable of setting up 20 different prices for the same airline seat, depending on a variety of promotions, rules, and demand predictions. But the airlines have discovered that the one-low price model of Southwest, AirTran, and other budget carriers can build market share and consumer trust very rapidly and is extremely popular with customers. Market segmentation and dynamic pricing work on the Web only if price transparency is reduced, and if the consuming public accepts the rationale for price differences. From the point of merchants, the Internet increases transparency in markets, making it harder to hide obvious price differentials.


Some leading online auction sites are listed in **Table 13.2.** Auctions are not limited to goods and services. They can also be used to allocate resources, and bundles of resources, among any group of bidders. For instance, if you wanted to establish an optimal schedule for assigned tasks in an office among a group of clerical workers, an auction in which workers bid for assignments would come close to producing a nearly optimal solution in a short amount of time (Parkes and Ungar, 2000). In short, auctions—like all markets—are ways of allocating resources among independent agents (bidders).
What’s the difference between NBC, ABC, and CBS—the three largest broadcasting networks in the United States? If you think there’s not much difference, then you are in agreement with the vast majority of Americans who can’t tell the difference either. Now, what’s the difference between AOL, MSN, Yahoo, and Google? On the one hand that’s easy: Google does not have its own content, and all the others do. Although this is not strictly true (Google has Google Earth, for instance) for the most part, Google is a place you visit on your way somewhere else, whereas the other portals are places you go to and hang around for a while. But differences are what make life interesting, and in portals the differences lead to different strategies. They all have decided to become the primary gateway to the Internet for the entire world. Because the portal business is the fastest growing advertising medium, there’s a lot of money at stake.

One last difference: AOL is the only portal actually losing visitors ever since it was purchased by Time Warner in 2000 in a misbegotten plan to marry the Internet with Hollywood content. Subscribers have fallen from 26 million to 20 million, and subscription revenue has fallen from $6 billion to $5 billion. AOL was built in the mid-1990s as a proprietary Web site available to Internet amateurs for $26 a month, and based on a proprietary browser that could be used on only the AOL dial-up telephone service. This model obviously is out of date in the age of broadband connections and user-friendly browsers (such as Internet Explorer built into each Windows PC). AOL did have content when others did not. But this advantage dwindled as Yahoo and MSN built content over the years. Pressed by shareholders to do something to save AOL or sell it, Time Warner management looked for a partner and found three bidders. Guess who? All the other top portals—Google/Comcast, Microsoft’s MSN, and Yahoo—looking to add another 20 million subscribers. If you were an investor in AOL, who would you want AOL to join up with in a merger?

What would be the best choice for preserving AOL’s strengths, addressing its weaknesses, and growing audience share?

Right now, each portal has different strengths. Google is the clear leader in online search, with more than a 46% market share of all online searches (leaving Yahoo with 23%, 11% for MSN, and a paltry 7% for AOL). But if you look at the number of site visitors, Yahoo is the leader with 47% share (leaving MSN with 39%, AOL with 36%, and Google with only 32%). Moreover, people stay around Yahoo, MSN and AOL for hours each week, but at Google they are gone to other sites in seconds. Yahoo also leads in e-mail services. Yahoo’s Web e-mail service has ten times as many users as Google. But AOL clearly leads in instant messaging by a factor of two over its next competitor Microsoft’s Hotmail, and by a factor of 12 over Google’s iM. In terms of revenues produced, MSN is the clear loser, clearing only $500 million last year.

MSN Web sites are among the most popular on the Internet, visited by more than 420 million unique users every month. MSN Hotmail is one of the world’s largest e-mail services, and MSN Messenger is one of the world’s largest instant-messaging services. MSN also provides a variety of paid solutions, including MSN Internet Access and MSN Premium Web Services.

(continued)
Ultimately, in December 2005, Time Warner CEO Richard Parsons announced that Time Warner would sell a 5% interest in AOL to Google for $1 billion. The other close contender was Microsoft, which was offering a joint ownership in a new company to sell advertising on their own sites and eventually on other sites. Microsoft has very deep pockets, with a cash hoard of $35 billion in 2005, and is a technology rich company. Yahoo was not a likely contender because it is so much like AOL that it would add little for the two to merge. Google had been providing AOL with search services for three years. AOL represented $500 million of Google’s advertising revenue (of which it paid back to AOL $450 million) and a merger would only cement this relationship. Google even agreed to change its business model and give AOL’s advertisements a special place on its search results page. For instance, if a user searches for “Madonna” and AOL Time Warner has Madonna content (music or books), a special section in lower corner will send users to AOL.com.

No one knows for sure how this new Google-AOL partnership will work out. Partnerships on the Internet have a short life span. It is likely that over time, all the Big Four portals will become identical—just like network television. Effective organizations adapt to their environments, and, in doing so, become like other organizations adapting to the same environments. Moreover, just about any important innovation pioneered by one can easily be copied by others. Witness AOL’s Instant Messenger service now copied by MSN and Yahoo. For many, Google’s purchase of 5% of AOL was purely a defensive move to prevent AOL from going with Microsoft, its arch enemy.


**Vertical Market Portals** attempt to attract highly focused, loyal audiences with a deep interest in either community or specialized content. Scores, stock tickers, health tips, instant messaging, automobile information, and auctions.

**Vertical market portals** (sometimes also referred to as destination sites or portals) attempt to attract highly focused, loyal audiences with a deep interest either in community or specialized content—from sports to the weather. In addition to their focused content, vertical market portals have recently begun adding many of the features found in general purpose portals.

The concentration of audience share in the portal market reflects (in addition to network effects) the limited time budget of consumers. This limited time budget works to the advantage of general purpose portals. Consumers have a finite amount of time to spend on the Web, and as a result, most consumers visit fewer than 30 unique domains each month. Facing limited time, consumers concentrate their visits at sites that can satisfy a broad range of interests, from weather and travel information, to stocks, sports, and entertainment content.

General purpose sites such as Yahoo try to be all things to all people, and attract a broad audience with both generalized navigation services and also in-depth content and community efforts. For instance, Yahoo has become the Web's...
POWER TO THE PEOPLE: CONVENING TECHNOLOGY FOR FACE-TO-FACE MEETINGS

What's the connection between the physical world of face-to-face meetings with like-minded and like-interested people and the online world of similar people? Can the new online community technology of bulletin boards, e-mail, storage, and pictures be used to support the offline world of face-to-face groups? The answer might be explored in a new Web site called MeetUp.com which from its inception has been devoted to supporting the creation and maintenance of so-called "voluntary organizations" throughout the United States. Voluntary organizations is a fancy phrase for self-organized groups of people. According to historians and scholars, the United States is peculiarly blessed with hundreds of thousands of self-organized communities from volunteer fire departments and EMS groups, to religious churches, synagogues, and temples, to local knitting groups and charities.

MeetUp.com was formed by Scott Heiferman in New York City shortly after the September 11th attacks in 2001. Since 2002, MeetUp.com has been the online convening tool for more than 100,000 clubs with more than 2 million members. In 2005, more than 2,400 offline meetings each week were supported by MeetUp, and its group subscriptions are growing by 50% a year. For instance, a group of African music lovers in Manhattan can arrange a meeting with one another at a local Starbucks next week using MeetUp, and a group of Seattle witches can arrange a get-together at a local restaurant for lunch. Hundreds of thousands of the site's registered users attend monthly "meet-ups," as they are known. What makes these meet-ups different is that they take place offline rather than online. Simply put, MeetUp.com does something very simple: it helps people organize and meet offline.

MeetUp obtained financial backing from venture capitalists Draper Fisher Jurvetson and eBay founder Pierre Omidyar. MeetUp has few if any competitors. Most online community sites help individuals find other individuals (and sometimes meet on dates offline) or share ideas and images with others online but have very little offline organizing capabilities or interests.

MeetUp.com became famous by providing supporters of Howard Dean's presidential candidacy an online Web site to arrange meetings, rallies, and raise money. They also created their own site called MoveOn.org to build support and organize rallies. Republican opponents took note, and followed suit by using MeetUp to support their candidates. One result, many experts believe, of these and other online organizing activities is that awareness and participation in the national presidential election of 2004 was much higher than in previous elections.

Originally the actual arrangements for off-site meetings would be made by MeetUp.com personnel. MeetUp would call the local Starbucks or restaurants or libraries where meetings were being planned to arrange the meetings. In 2004 it revised its site and gave the power to arrange meetings over to "group leaders." This was a philosophical change towards giving control of the Web site over to community leaders rather than have it managed from a central site in New York City, which was becoming increasingly difficult as the site attracted users from around the country.

How does MeetUp make money? When formed in 2002, it charged some members a
$3 fee for posting pictures on the site, and charged restaurants and bars where meetings might take place. In 2005, it started charging groups for the service. Each active group in June 2005 (say, about 54,000 in all) was charged $19 a month. The group fees must be paid by the group leader, who in turn can collect fees from members. This follows the pattern with other community sites to begin charging fees for usage and premium services. The charging of fees may reduce the number of groups temporarily, but executives hope that the population of groups remaining will be more committed and more willing to click on ads displayed on the site. Executives of the 29-employee company hope to become profitable in 2006. Heiferman hopes users realize there is no free lunch: "If MeetUp creates value for everyone, then there should be some value for MeetUp." In return for fees, the company is trying to add more value by mailing out customized MeetUp identification cards, placards for group meetings, and creating PayPal accounts for members to make payment easier.


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<td>E-mail</td>
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