Volkswagen Builds Its B2B Net Marketplace

- Why didn’t Volkswagen want to use a more open or public electronic exchange for its parts supply? Why didn’t it join the industry consortium Covisint?
- What kinds of services are provided by VWGroupSupply.com?
- What is eCAP and who benefits from its use?
- Do you think suppliers are disadvantaged by this B2B marketplace?

Defining B2B Commerce

- Before Internet, B2B transactions called just trade or procurement process
- Total inter-firm trade: Total flow of value among firms
- B2B commerce: All types of computer-enabled inter-firm trade
The Evolution of B2B Commerce

- B2B commerce has evolved over a 35-year period
- 1970s: Automated order entry systems used telephone modems to send digital orders (e.g., Baxter Healthcare)
  - Seller-side solution (owned by suppliers, seller-biased, show goods only from single seller)
- Late 1970s: Electronic data interchange (EDI) -- communications standard for sharing business documents and settlement information among a small number of firms
  - Buyer-side solution (owned by buyers, buyer-biased, aim to reduce procurement costs for buyer)
  - Often referred to as hub-and-spoke system
  - Generally serves a vertical market

Vertical Market

- A vertical market is a particular industry or group of enterprises in which similar products or services are developed and marketed using similar methods (and to whom goods and services can be sold).
- Broad examples of vertical markets are: insurance, real estate, banking, heavy manufacturing, retail, transportation, hospitals, and government.
- Vertical market software is software aimed at a particular vertical market and can be contrasted with horizontal market software (such as word processors and spreadsheet programs) that can be used in a cross-section of industries.
  - (Ref: http://searchcio.techtarget.com/)

The Evolution of B2B Commerce (cont’d)

- 1990s: B2B electronic storefronts -- online catalogs of products made available to the public marketplace by a single supplier
- Late 1990s: Net marketplaces – bring hundreds to thousands of suppliers and purchasers into a single Internet-based environment to conduct trade
- Late 1990s: Private industrial networks – Internet-based communication environments that extend beyond procurement to encompass collaborative commerce


- B2B e-commerce
  - 2005: $1.5 trillion
  - 2009: $4.11 trillion
- Net marketplaces growing at faster rate than private industrial networks, but even so, in 2006 private industrial networks still expected to be twice the size of Net marketplaces
- Not all industries will be similarly affected by B2B e-commerce
  - Computer, automotive, aerospace and defense, and industrial equipment industries likely to move first and fastest to B2B utilization


Potential Benefits of B2B E-commerce

• Lower administrative costs
• Lower search costs for buyers
• Reduced inventory costs by increasing competition among suppliers and reducing inventory carried
• Lower transaction costs by eliminating paperwork, automation
• Increased production flexibility by ensuring just-in-time parts delivery
• Improved quality of products by increasing cooperation among buyers and sellers
• Decreased product cycle time by sharing of designs and production schedules
• Increased opportunities for collaborating with suppliers and distributors
• Greater price transparency

The Procurement Process and the Supply Chain

• Procurement process: The way firms purchase the goods they need to produce the goods they sell
• Supply chain: Firms that purchase goods, their suppliers, and their suppliers’ suppliers
• Includes not just the firms themselves, but also the relationships among them and the processes that connect them

Steps in the Procurement Process

• Search for suppliers of specific products
• Qualify both seller and products they sell
• Negotiate prices, credit terms, escrow, quality, schedule
• Issue purchase order
• Invoice issued
• Goods shipped
• Payment

Types of Procurement

• Types of goods purchased
  • Direct goods: Goods integrally involved in the product process
  • Indirect goods: All other goods not directly involved in production process (sometimes called MRO – Maintenance, Repair and Operation goods)
• Methods of purchasing
  • Contract purchasing: Involves long-term written agreements to purchase specified products, with agreed upon terms and quality
  • Spot purchasing: Involves purchase of goods based on immediate needs in larger marketplaces that involve many suppliers
Multi-tier Supply Chains

- Involves a complex series of transactions that exists between a single firm with multiple primary suppliers, the second suppliers who do business with those primary suppliers, and the tertiary suppliers who do business with the secondary suppliers.

The Multi-Tier Supply Chain

The Role of Existing Legacy Computer Systems

- Legacy computer systems: Generally older mainframe and minicomputer systems used to manage key business processes within a firm.
- Typical examples include:
  - Materials requirements planning (MRP) systems – enable firms to predict, track, and manage the parts of complex manufactured goods.
  - Enterprise resource planning (ERP) systems – more sophisticated MRP systems.

Trends in Supply Chain Management and Collaborative Commerce

- To understand B2B e-commerce, must also understand developments in supply chain management.
- Supply chain management (SCM): Refers to a wide variety of activities that firms and industries use to coordinate the key players in their procurement process.
- Major developments in supply chain management.

Supply Chain Simplification

- Firms work closely with a strategic group of suppliers to reduce product and administrative costs, while improving quality.
- Typically involves purchasing under long-term contracts that contain pre-specified product quality requirements and pre-specified timing goals.
- Often involve tight coupling – method of ensuring that suppliers precisely deliver ordered parts at specific time and to particular location, to ensure production process is not interrupted.

Electronic Data Interchange (EDI)

- EDI: broadly defined communications protocol for exchanging documents among computers.
- Has evolved significantly:
  - 1970s-1980s: Originally focused on document automation (Stage 1).
  - Early 1990s: Began to focus on document elimination (Stage 2).
  - Mid 1990s: Movement toward a continuous replenishment/access model.
Supply Chain Management Systems

- Continuously link the activities of buying, making, and moving products from suppliers to purchasing firms, as well as integrating the demand side of the business equation by including the order entry system in the process.
- Example: Hewlett Packard

Insight on Technology: RFID Autoidentification: Making Your Supply Chain Visible

- Why is RFID an improvement over bar codes?
- How does RFID work?
- Why would Wal-Mart support RFID?
- What impact will widespread adoption of RFID have on Internet B2B commerce?

Collaborative Commerce

- An extension of supply chain management systems and supply chain simplification
- Involves the use of digital technologies to permit organizations to collaboratively design, develop, build, and manage products through their life cycles
- Involves a move from a transaction focus to a relationship focus
- Example: Group Dekko
Elements of a Collaborative Commerce System

Main Types of Internet-Based B2B Commerce

• **Net marketplaces**: Bring together potentially thousands of sellers and buyers in a single digital marketplace operated over the Internet
  - Transaction-based
  - Supports many-to-many as well as one-to-many relationships
• **Private industrial networks**: Bring together a small number of strategic business partner firms that collaborate to develop highly efficient supply chains

Two Main Types of Internet-Based B2B Commerce

The Projected Relative Size of Net Marketplaces and Private Industrial Networks in 2006

SOURCE: Based on data from U.S. Department of Commerce, 2005; eMarketer, Inc., 2003a; authors’ estimates.

Net Marketplaces

• 2000 – over 1500 Net marketplaces; 2005 – an estimated 200
• Many different ways to classify Net marketplaces such as based on:
  - Pricing mechanism
  - Nature of market served
  - Ownership
• Another method: Classify Net marketplaces based on their business functionality
  - What businesses by (direct vs. indirect goods)
  - How business by (spot purchasing vs. long-term sourcing)

Pure Types of Net Marketplaces

WHAT BUSINESSES BUY

- Indirect Inputs
  - Independent Exchanges
  - OEC (www.oecweb.com)
  - DaVinci.com
  - Siebel.com

- Direct Inputs
  - E-distributor
  - Oracle.com
  - Siebel.com
  - DaVinci.com
  - Siebel.com

WHAT BUSINESSES SELL

- Spot Purchasing
  - SAP (www.sap.com)
  - Dell.com

- Long-term Sourcing
  - SAP (www.sap.com)
  - IBM (www.ibm.com)

MORE BUSINESS BY

- E-procurement
  - Ariba (www.ariba.com)
  - Oracle (www.oracle.com)
  - Siebel (www.siebel.com)

- Industry Consortia
  - Energy
  - Steel
  - Automotive
E-distributors

• Most common type
• Provide electronic catalogs that represent the products of thousands of direct manufacturers
• Typically independently owned intermediaries that offer industrial customers a single source from which to order indirect goods on a spot basis
• Typically operate in horizontal markets because they serve many different industries with products from various manufacturers.

E-procurement

• Independently owned intermediaries connecting hundreds of online suppliers offering millions of indirect goods to business firms who pay fees to join the market
• Typically used for long-term contractual purchasing of indirect goods
• Expand on business model of e-distributors
• Typically offer value chain management (VCM) services, such as automation of a firm’s entire procurement process on buyer side, automation of selling business processes on seller side
• Sometimes referred to as a many-to-many market
• Example: Ariba

E-commerce in Action: Ariba

• Ariba Supplier Network – Internet-based network that connects suppliers to customers and their partners
• Also offers Enterprise Spend Management (ESM) solutions to manage all of a company’s non-payroll expenses
• Ariba’s original vision was to revolutionize the procurement and supply process in large corporations
E-commerce in Action: Ariba (cont’d)

• Has faced many difficulties in bringing this vision to fruition
  - Implementation of its software by large companies is a complex, time-consuming and expensive
  - Failed to understand power of existing and Web-based EDI systems
  - Competitive response from other major technology players
  - Difficulties getting suppliers to join Ariba Supplier Network
• Currently operating at significant net loss; future prospects not great

Exchanges

• Independently owned online marketplaces that connect hundreds to potentially thousands of suppliers and buyers in a dynamic, real-time environment
• Typically vertical markets focusing on spot purchasing requirements of large firms in a single industry
• Make money by charging a commission on transaction
• Variety of pricing models used

Industry Consortia

• Industry-owned vertical markets that enable buyers to purchase direct inputs from a limited set of invited participants
• Emphasize long-term contractual purchasing and development of stable relationships
• Ultimate objective: Unification of supply chains within entire industries through a common network and computing platform
• More than 60 industry consortia now exist, with many industries having more than one
• Make money from transaction and subscription fees
• Offer many different pricing mechanisms
• A Request For Proposal (referred to as RFP) is an invitation for suppliers, through a tender process, to bid on a specific product or service. A RFP is usually part of a complex sales or enterprise sales process.

• The Request for Quotation (RFQ) is used where discussions aren’t required with bidders (mainly when the specifications of a product or service are already known), and price is the main or only factor in selecting the successful bidder.

• A reverse auction (also called "online reverse auction," "e-sourcing," "sourcing event," or "tender") is a type of auction in which the role of the buyer and seller are reversed with the primary objective to drive purchase prices downward. Unlike an ordinary auction, where buyers compete for the right to obtain a good, in a reverse auction, sellers compete for the right to provide a good. Reverse auctions are a tool often used by purchasing organizations for spend management, as part of strategic sourcing and overall supply management activities.

(Ref: http://en.wikipedia.org/wiki/)

The Long-Term Dynamics of Net Marketplaces

• Pure Net marketplaces are moving away from simple "electronic marketplace" vision and toward playing a more central role in changing the procurement process.

• Consortia and exchanges beginning to work together in selected markets; e-distributors joining large e-procurement systems and also industry consortia as suppliers.

• Movement from simple transactions involving spot purchasing to longer-term contractual relationships involving both direct and indirect goods.

Net Marketplace Trends

Figure 12.16, Page 721

Insight on Society: Are Net Marketplaces Anti-Competitive Cartels

• How can Net marketplaces and private industrial networks reduce competition in the marketplace, drive up prices, and reduce variety in markets?

• What is a monopsony, and how do Net marketplaces encourage the development of monopsonies?

• How can Net marketplaces be used to exclude competitors from low priced markets?

• Why do Net marketplaces inevitably lead to a single marketplace owner or provider?

What Are Private Industrial Networks?

• Web-enabled networks for the coordination of trans-organizational business processes (collaborative commerce)

• Range in scope from a single firm to an entire industry

• Example: Proctor & Gamble
Characteristics of Private Industrial Networks

- **Objectives** of private industrial networks include:
  - Developing efficient purchasing and selling business processes industry-wide
  - Developing industry-wide resource planning to supply enterprise-wide resource planning
  - Creating increasing supply chain visibility
  - Achieving closer buyer-supplier relationships
  - Operating on a global scale
  - Reducing industry risk by preventing imbalances of supply and demand

- Typically focus on a single sponsoring company that “owns” the network

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Insight on Business: Wal-Mart Develops a Private Industrial Network

- What is Wal-Mart’s Retail Link system and how has it changed since the early 90s?
- What is a “collaborative forecasting, planning and replenishment” system?
- Why is Wal-Mart still using EDI-based systems?
- Why won’t Wal-Mart join in the industry-backed Global NetXchange system?

---

Private Industrial Networks and Collaborative Commerce

- Collaboration among businesses can take following forms:
  - **Collaborative resource planning, forecasting, and replenishment (CPFR):** Involves working with network members to forecast demand, develop production plans, and coordinate shipping, warehousing and stocking activities to ensure that retail and wholesale shelf space is replenished with just the right amount of goods
  - Demand chain visibility
  - Marketing coordination and product design – closed loop marketing

---

Pieces of the Collaborative Commerce Puzzle

- **Product Design**
- **Marketing Coordination**
- **Private Industrial Networks**
- **Demand Chain Visibility**
- **Supply Chain Visibility**
Implementation Barriers

- Concerns about sharing of proprietary data
- Integration into existing ERP systems and EDI networks – expensive
- Requires change in mindset and behavior of employees

Auctions, Portals, and Communities

Ref: Laudon & Traver “E-commerce” Ch 13 Slides from Publisher

Auction Fever

- Why is United Airlines using auctions to redeem frequent flyer miles?
- Why are auctions better than liquidation sales for retailers?
- What is meant by the term, “auction marketing”?
- Why would consumers pay more at auctions than at in-store liquidation sales?

Major Trends in Auctions, Portals, and Communities—2006

- **Auctions**
  - eBay continues to expand but more slowly
  - Use of fixed price platform increases
- **Portals**
  - Portal business model, driven by advertising revenues, experiences resurgence
- **Content places increasingly important role**
- **Communities**
  - MySpace fastest growing community in history
  - Commercial sponsorship and advertising-supported business models increase

Auctions

- Online auction sites among the most popular consumer-to-consumer sites on the Internet
- eBay.com: 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.

- **Types of pricing**
  - Dynamic pricing
  - Fixed pricing
  - Trigger pricing
  - Utilization pricing
  - Personalization pricing

**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.
- 2005: C2C auction sites generated $15.4 billion; B2C auction sites, $11.4 billion.

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

- 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 Revenues from C2C Auctions and B2C Dynamic Pricing**

![Projected Growth in Revenues from C2C Auctions and B2C Dynamic Pricing](source)

**Benefits of Auctions**

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

**Benefits of Auctions**

- **Liquidity** – Sellers can find willing buyers and buyers can find sellers.
- **Price discovery** – Buyers and sellers can quickly and efficiently develop prices for items that are difficult to access, where price depends on demand and supply, and where product is rare.
- **Price transparency** – Allow everyone in world to see the asking and bidding prices for items.
- **Market efficiency** – Auctions can and often do lead to reduced prices, leading to an increase in consumer welfare.
Benefits of Auctions (cont’d)

- **Lower transaction costs** – Online auctions can lower cost of selling and purchasing products, benefiting both merchants and consumers.
- **Consumer aggregation** – Sellers benefit from large auction sites’ ability to aggregate large number of consumers who are motivated to purchase.
- **Network effects** – The larger an auction site becomes in terms of visitors and products for sale, the more valuable it becomes as a marketplace for everyone.

Risks and Costs of Auctions

- **Delayed consumption costs** – Internet auctions can go on for days, and shipping takes additional time.
- **Monitoring costs** – Participating in auctions requires time to monitor bidding.
  - Possible solutions include: fixed pricing, watch lists that permit consumers to monitor specific auctions of interest, proxy bidding, which allows consumers to enter maximum price and auction software will automatically bid for goods up to that maximum price in small increments.
- **Equipment costs** – Requires access to computer system and Internet.

Risks and Costs of Auctions (cont’d)

- **Trust risks** – Online auctions are single largest source of Internet fraud.
- **Possible solution** – Rating systems (not always successful).
- **Fulfillment costs** – Buyers pay fulfillment costs of packing, shipping and insurance.

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.

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.

Bias in Dynamically Priced Markets

[Figure 13.2, Page 755]
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

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

- **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

Types of Auctions (cont’d)

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- **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
### Auction Solution Providers for Business

- Some provide software that enable firm to host auctions on their own Web site
- Some have developed tools that allow a business to transfer information from its product database directly to multiple auction sites automatically

### 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

### Auctioneer Profits

![Figure 13.3, Page 765](source: Based on data from Vakrat and Seidmann, 1998.)

### When Auction Markets Fail: Fraud and Abuse in Auctions

- Auction markets are particularly prone to fraud
- 2005 IC3 statistics:
  - 81% of Internet fraud complaints concerned online auctions (reduced from 87% in 2002)
  - Median lost: $200 (reduced from $320 in 2002)
  - Most common fraudulent payment mechanism: money orders and credit cards

### Table 13.7: Factors to Consider When Choosing Auctions

<table>
<thead>
<tr>
<th>Consideration</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of product</td>
<td>Rare, unique, commodity, perishable</td>
</tr>
<tr>
<td>Stage of product life cycle</td>
<td>Early, mature, late</td>
</tr>
<tr>
<td>Channel-management issues</td>
<td>Conflict with retail distributors, differentiation</td>
</tr>
<tr>
<td>Type of auction</td>
<td>Seller vs. buyer bias</td>
</tr>
<tr>
<td>Initial pricing</td>
<td>Low vs. high</td>
</tr>
<tr>
<td>Bid increment amounts</td>
<td>Low vs. high</td>
</tr>
<tr>
<td>Auction length</td>
<td>Short vs. long</td>
</tr>
<tr>
<td>Number of items</td>
<td>Single vs. multiple</td>
</tr>
<tr>
<td>Price-allocation rule</td>
<td>Uniform vs. discriminatory</td>
</tr>
<tr>
<td>Information sharing</td>
<td>Closed vs. open bidding</td>
</tr>
</tbody>
</table>

### Table 13.8: eBay’s List of Auction Frauds

<table>
<thead>
<tr>
<th>Type of Fraud</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feedback Offenses</td>
<td>Using secondary eBay IDs or other eBay members to inflate seller ratings</td>
</tr>
<tr>
<td>Feedback abuse</td>
<td>Any abuse of the feedback forum</td>
</tr>
<tr>
<td>Feedback rejection</td>
<td>Offering to sell, trade, or buy feedback</td>
</tr>
<tr>
<td>Feedback solicitation</td>
<td>Using the rejection option to make high bids, discovering the minimum bid of current high bidders, then retracting bid</td>
</tr>
<tr>
<td>Dragging differences</td>
<td>Persisting in making bids despite a warning that bids are not welcome</td>
</tr>
<tr>
<td>Transaction interference</td>
<td>Buying in violation of seller’s terms</td>
</tr>
<tr>
<td>invalid bid rejection</td>
<td>Using secondary user IDs or other members to artificially raise the bidding price of an item</td>
</tr>
</tbody>
</table>
E-commerce in Action: eBay.com

- World’s largest and most popular online auction
- Major e-commerce success story
- Business model ideally suited to Web
- Derives all revenue from movement of information
- Excellent financial performance
- Business strategy based on expansion in both geography and scope
- Auction fraud and abused a major challenge
- Track record of more than 5 years of growth and profitability suggest a bright future

The Growth and Evolution of Portals

- **Portals:** most frequently visited sites on the Web
- Are gateways to the more than 8 billion Web pages
- Most of top portals today began as search engines
- Today provide navigation of the Web, commerce, and content (own and others’)
- **Top portal/search engine sites 2005** in terms of reach:
  - Yahoo (including Overture and AltaVista)
  - MSN (Microsoft Network)
  - AOL (America Online) (including Netscape)
  - Google

Reach of the Top Portals and Search Engine Sites in the United States

![Graph showing reach of top portals and search engines](image)

**Figure 13.4, Page 779**

**SOURCE:** Based on data from eMarketer, Inc., September 2005.

Insight on Business: Battle of the Portals

- 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, AOL, and MSN?
- 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 a 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 a deep interest in either community (affinity group) or specialized content
Two General Types of Portals: General Purpose and Vertical Market Portals

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

Revenue per Customer and Market Focus

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: excellent, driven by advertising revenues
- 2003: Acquired Inktomi and Overture: return to search engine roots, and new emphasis on pay-for-placement search engine marketing
- Future prospects depend on matching Google on search and extending its lead on content

Online Communities
- **Communities** involve:
  - A group of people
  - Shared social interaction
  - Common ties among members
  - People who share an area for some period of time
- Communities do not necessarily have shared goal, purposes, or intentions
- Virtual community: an area online where people who share common ties can interact with one another
- Debate about relative merits of virtual communities versus ordinary communities

Where People Go Online to Network

SOURCE: Based on data from Pew Internet & American Life Project, 2006; Borzo, 2004, authors’ estimates.
Types of Online Communities and Their Business Models

- **General communities**: Offer members opportunities to interact with a general audience organized into general topics.
- **Practice communities**: Offer members focused discussion groups, help and knowledge related to an area of shared practice.
- **Interest communities**: Offer members focused discussion groups based on a shared interest in some specific subject.
- **Affinity communities**: Offer members focused discussion and interaction with other people who share the 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.

Insight on Technology: Power to the People: Convening Technology for Face-to-Face Meetings

- What is “convening software” and how does MeetUp.com work?
- How has MeetUp.com changed over the years?
- How does MeetUp differ from other online community sites?
- Do you think groups will pay for the service as charges rise?
- Why would venture capitalists back MeetUp.com?

Commerically Sponsored Communities: Business Uses of Community

- **Sponsored commercial communities** can play an important role as customer relationship management tools.
- Can extend an existing **brand name**
- Can gather customer **feedback and suggestions**

**TABLE 13.15 ECONOMIC BENEFITS OF COMMERCIALLY SPONSORED COMMUNITIES**

<table>
<thead>
<tr>
<th>BENEFIT</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer relationship management</td>
<td>Using the community to track customer contacts with the firm</td>
</tr>
<tr>
<td>Brand extension</td>
<td>Developing an online presence for an offline brand</td>
</tr>
<tr>
<td>Customer loyalty</td>
<td>Bringing intangible benefits to the consumer through the community site</td>
</tr>
<tr>
<td>Product innovation</td>
<td>Using feedback from the community to create new products</td>
</tr>
<tr>
<td>Market research</td>
<td>Receiving feedback from consumers; focused mailing lists</td>
</tr>
<tr>
<td>Product information</td>
<td>Warranty, performance, limitation, and best practice use of products</td>
</tr>
<tr>
<td>Supply chain management</td>
<td>Developing a community of suppliers to more closely coordinate their activities, and informing them of firm future plans and requirements</td>
</tr>
</tbody>
</table>

Other Communities

- **Virtual community**
  - Second Life (secondlife.com)
  - Online Games (world of warcraft)
- **Blogs**
  - Business, Club, Culture, Moblog, Online Diary, Photoblog, Political, Science, Topical, Travel,…
- **Podcast**