

Group Buying on the Internet

Problems and Possibilities

Alan S. Davis

What is Online Group Buying?

- An e-Commerce platform that facilitates group buying on the Web
- Virtualizes discount shopping club
 - Sam's Club
 - QVC model
 - Consumers collaborate to obtain lower prices rather than bidding against each other
- Empowers consumers to make a purchase in an individual transaction while enjoying the advantages of group discounts

Types of Online Shopping Models

- Auction Sites
- E-tailers
- Shopping portals
- Comparison shopping sites
- Search engines

Consumer Concerns

- Trust
- Fraud
- How good is this deal?
- How good is this product?
- Customer Service
- I can't touch it or feel it

Advantages of Group Buying

- Consumers obtain lowest prices available
- Takes advantage of “safety-in-numbers” phenomenon inherent in group psychology
- Equilibrium created between supply and demand
- Increases market efficiency

Benefits to Sellers

- Lowers customer acquisition costs
- Extends customer reach
- Increases profit margins
- Reduces credit risk
- Enables offloading of excess or outmoded inventory
- Balances supply and demand

The Mercata Story

- Funded by Paul Allen in 1999
- Burned through \$90 million in less than two years
- Bought and held inventory, often selling below cost of inventory
- Competed head-to-head with big box companies
- With no way then to drive extremely qualified traffic to the site, acquired customers through inefficient, costly means such as full-page ads in WSJ and NYT
- Forced buyers to go to manufacturer's site to get product information, losing⁷ many sales

The Mobshop Experience

- Co-Funded by Marc Andreessen in 1999
- Pre-negotiated product prices before knowing number of buyers, resulting in higher prices
- Often sold outdated products by not keeping up with new models or versions
- Poor customer support
- Delayed and damaged shipments
- No facility for returns and exchanges

The Online Shopping Story Today

- Much greater Internet adoption and broadband penetration in U.S. and worldwide today:
 - Almost one billion worldwide Internet users
 - 73% of adults now online, up from 69% in 2003, 67% in 2002, 64% in 2001 and 63% in 2001
 - 150 million broadband subscribers (40 million households in US)
 - Expected to reach 400 million internationally by 2009
- Still lots of room for growth in online shopping:
 - Only 25% of U.S. households are online shoppers
 - Online shopping only 4% of retail sales
- B2C e-Commerce at \$120 billion in 2004, vs. \$20 billion in 1999
- Consumers comfortable using Web to seek bargains online today (eBay impact)
- Pay-for-performance and search marketing available today, to enable more efficient high-volume customer acquisition
- Much lower technical development costs due to ability to leverage open source code

Required Elements of Successful Group Buying Site

- Make the site easy to view, understand and use, such as desktop dashboard
- Let the seller set the rules:
 - Minimum number of buyers
 - Price points at various group sizes
 - Closing dates and times
- Establish a community around products being sold to build collaboration and trust
- Make product and price comparison information readily available, including historical data
- Link to rating and opinion sites
- Verify sellers to guard against fraud
- Be imaginative and use gamesmanship to viral market
- Use around the clock phone support

Technology Entrepreneurship in a Rapidly Changing Marketplace

Alan S. Davis

A Description of the Problem and
a Suggested Solution Set

Who is Alan Davis?

- A high technology entrepreneur
 - Wi Fi service (GlobaLAN)
 - Data storage management (SANgate Systems)
 - Compliance software (IntelliSphere)
 - Consumer e-commerce platform (GroupGain)
 - DSL enhancement circuits (Communications Technology)
 - Digital microwave radios (RadioLink Networks)
- A media entrepreneur
 - Cable television operator (Nashoba Cable)
 - Content provider (XY.tv)
 - Internet radio stations (Branded Radio Networks)
- A lawyer
 - Litigator
 - Lobbyist
 - Corporate attorney

Rapid Pace of Innovation and Adoption

- The toys and gadgets tell the innovation story:
 - Television Sets and DVRs
 - Digital Cameras
 - Cell phones
 - Video game platforms
- Web 2.0 drives innovation and adoption
 - Online shopping
 - Mashup
 - Blogging
 - Tagging
 - Social networking
- Software development cycles quicken
 - ASPs (testing and deployment)
 - Open source development
 - APIs and application exchanges
- Computer savvy generation coming of age

Reduced Cost of Developing and Distributing New Products and Services

- The Internet effect
 - Search engines
 - Emails and instant messaging
 - blogs, RSS, SMS and tagging
- Cheap and accessible worldwide voice and data communications
- Less costly advanced equipment
 - Handheld video cameras
 - Editing equipment
- Open source software
- Vertical integration via RFID
- Educated and skilled labor force in China and India

Availability of Investment Capital

- The spread of capitalism to the East
- The development of new markets and wealth
- The spreading wings of Western venture capital firms
- Presence of highly organized, sophisticated angel groups to provide seed funding

What's an Entrepreneur to Do?

- Research, research, research
- Obtain seed funding as soon as possible
- Raise additional capital as soon as proof of concept is achieved
- Network, network, network
 - Universities
 - Investment community
 - Industry groups
- Develop relationships with partners, especially potential customers, fast

What's an Investor to Do?

- Be more open to investing in earlier stages of development.
- Don't rely so much on doing business with "proven" entrepreneurs.
- Spread risk within specific investment areas.
- Invest in technology abroad, but marketing at home.
- Promote cross fertilization of teams across people, skill sets, companies and geographies.

What's a CIO to Do?

- Expect technological innovation more likely will occur outside the company than within it.
- Work early on with startups and help define product specifications, without insisting, at first, on customization.
- Be open to the idea that final product will not be developed without one or two missteps.
- Insist on a high level of alpha/beta testing prior to deployment.
- Promote strong multi-level sponsorship of the project.
- Commit organizational resources to provide feedback.
 - Participation on customer advisory board
 - Access to test environment, test data or data center