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, losing 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- Often sold outdated products by not keeping up with new models or versions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