

Dynamic Commerce: The Changing Face of Business

August 2000

Introduction

Internet success stories come from a broad range of sources—from energetic dot.com start-ups to established businesses that have evolved into a new breed of “click-and-mortar” companies. These Internet leaders have analyzed the way traditional business has been done and have tried to automate these practices as much as possible, taking advantage of the increased speed and reach of the Web. In addition, many of these companies are capitalizing on the volume of data collected through online interactions: valuable information about customers, suppliers, and internal systems.

The convergence of these two Internet advantages—automation and data collection—raises questions. How can systems be optimized further? How can the information collected be used most effectively?

The answers to these questions are not so much solutions as they are opportunities that can be exploited through the latest Internet tool, dynamic pricing. Through

online auctions and other dynamic pricing applications, companies are finding they can leverage their backend systems information with their customer-facing applications.

Growth and Projections

Analysts agree that dynamic pricing applications will explode over the next five years. The nimble players in each industry segment will gain success by establishing a first-mover advantage and realizing the benefits of dynamic pricing.

With the number of people purchasing online continuing to rise each day, eCommerce is growing rapidly. Forrester Research estimates that business-to-business (B2B) eCommerce alone will surge to \$2.7 trillion in the U.S. by 2004. And B2B sales completed through dynamic pricing will reach \$746 billion in the U.S. by 2004. This explosive growth reflects the tremendous broad-based potential that dynamic pricing brings to the eCommerce arena.

What Is Dynamic Commerce?

Dynamic pricing applications include traditional Web auctions, reverse auctions (procurement), and exchanges. Each of these applications of dynamic commerce—dCommerce™—allows buyers and sellers to determine prices in real time on a per-transaction basis.

A company with a dCommerce strategy bases a portion of its business on dynamic pricing applications and uses the information collected to optimize systems and improve customer interactions. With this method of buying and selling, product prices vary in real time based on the current state of supply and demand. Customers gain control, paying only what they are willing to pay. By building customer price sensitivity into the transaction model, dCommerce enables the creation of more efficient markets. Sellers learn to base their prices on current market conditions. They do not have to guess at the market price, so they avoid charging too much and missing their market, or charging too little and leaving money on the table. In addition, dCommerce enables sellers to extend their market reach and potentially receive more for their products.

Online auctions and other dynamic pricing applications are the tools by which businesses can implement a dCommerce strategy. The business applications range from consumer-to-consumer online buying communities, to vertical business-to-consumer or business-to-business online auction sites, to private intranet sites in which smaller communities of buyers and sellers come together for price negotiations.

By implementing dCommerce into its business strategy, an organization will see a two-pronged effect: 1) customer relations and interactions will improve, and 2) the company will realize efficiencies based on the integration of back office systems with customer-facing applications.

Dynamic Pricing Benefits

Overall, dynamic pricing applications help create more efficient markets and better experiences for customers. By removing inefficiencies, suppliers are able to decrease costs and increase revenues. The following improvements can be realized through dynamic pricing:

- **Increase return on inventory**—By reaching the most interested prospects in the most efficient way possible, an auction enables businesses to sell excess inventory or reconditioned goods without having to resort to traditional liquidation prices.
- **Decrease processing costs**—Customers can eliminate paper trails and lengthy communications by using the power of the Internet and the negotiation efficiencies of dynamic pricing.
- **Eliminate costly middlemen**—Suppliers can gain more of the customers' dollars by offering items directly, rather than going through expensive brokers and liquidators.
- **Test pricing**—Sellers can determine true market prices for items, which avoids the problem of predicting demand incorrectly and pricing items too low or high.

- **Increase revenues from new and one-of-a-kind items**—The market determines the price for items in limited supply, with products going to the bidders at the highest prices the market will bear.
- **Create better customer experiences**—The excitement and involvement of a dynamic pricing format adds to a Web site’s “stickiness”—customers stay on the site longer and return more often.

meet this leftover demand, thereby further strengthening customer relationships.

- **Introductory phase**—Test pricing and capture early adopters.

Benefit: When properly staged, a Web auction promotes the product, establishes the true market price, stimulates demand, creates positive publicity, and draws new customers to the site.

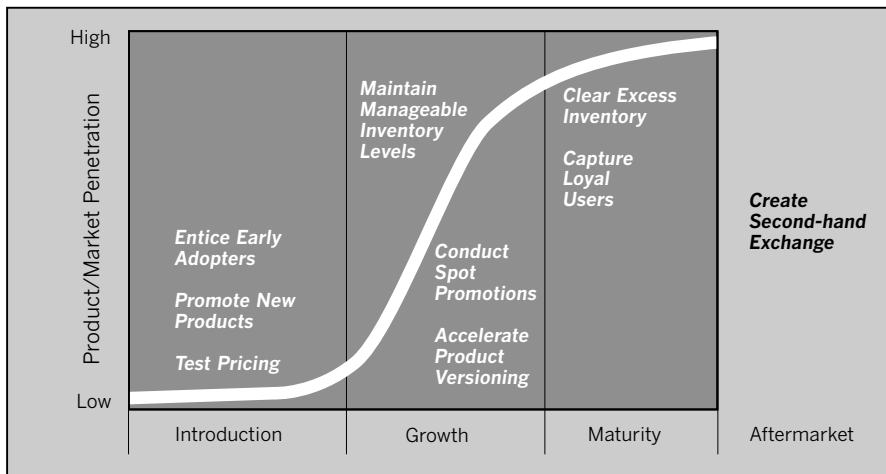
- **Growth phase**—Manage inventory levels, conduct spot promotions, and accelerate product versioning.

Benefit: Web auctions can be used as a sales catalyst and competitive pricing tool, in the way that price promotions are used today. These dynamic pricing applications help expand brand recognition, stimulate traffic and enthusiasm, attract new customers, and build community.

- **Maturity**—Liquidate excess inventory and capture loyal users.

Benefit: Dynamic pricing applications optimize supply and demand by allowing prices to fluctuate, enabling excess inventory to be liquidated more quickly, and by garnering higher prices than in traditional clearance sales. If the product is a popular item with limited availability, prices rise to reflect the actual market demand.

Businesses must learn where to apply dynamic pricing applications most effectively within their business context.



Dynamic commerce has applications over the entire product life cycle.

Dynamic Pricing Applications over the Product Life Cycle

Dynamic pricing can be applied at every stage of the product life cycle: introduction, growth, and maturity. In addition, it can provide a vehicle for establishing aftermarket exchanges among customers. When products are retired, demand does not subside. Aftermarkets are ideal for the recycling of second-hand and refurbished products to

Dynamic Commerce Applications in Action

The benefits of dCommerce business models have given online businesses new competitive advantages. The following examples demonstrate companies that have successfully implemented the online dynamic pricing model in their business strategies.

Supplementing eCommerce and Building Community: CNET

CNET prides itself as the Internet's most complete marketplace linking computer buyers and sellers. It has succeeded in this role by establishing a community focused on technology information and eCommerce.

Using Siebel dCommerce, CNET has now integrated a person-to-person exchange with its eCommerce mix as a key element of its shopping services, which already include one of the industry's largest directories of computer products and prices. CNET's auction allows resellers, manufacturers, and individuals to offer their surplus, "end-of-line," refurbished, and used items. These listings are integrated into the relevant areas across the CNET network to provide a comprehensive community experience.

Maximizing Inventory Revenue:

The Sharper Image

The Sharper Image enjoys success in the specialty item and electronics category through brick-and-mortar stores, as well as through a successful catalog. In 1998, it stepped up its Internet presence, and eCommerce contributed a large portion to its overall growth. But it still had problems with inventory turns and with establishing pricing for unique items.

In 1999, using Siebel dCommerce, The Sharper Image successfully launched an Internet auction site, which complements its eCommerce store. The company has utilized its Web auction to manage inventory levels for overstocked items, establish a new market for refurbished and damaged goods, and establish true market prices for one-of-a-kind items. The Sharper Image auction site has been a tremendous success, fueled by brand recognition, a strong product suite, and its first-mover advantage within this category.

Creating an Online Portal to the Art World: artnet.com

Selling art online presented certain unique challenges for artnet.com. It needed to build a brand in the marketplace and establish itself as a reputable seller, so buyers would feel comfortable paying thousands of dollars for an artwork they had only seen online. The company chose Siebel dCommerce primarily because it needed auction software that could give its auctions a sophisticated look and feel, as well as room to grow and good technical support.

The site started small when it launched in March 1999. By January 2000, the site had sold 870 pieces of artwork for a total of U.S. \$1.9 million—with one work selling for U.S. \$168,000. The site now features art from over 800 art galleries and private collections around the world.

Expanding the Client Base: PNC Bank

Pittsburgh-based PNC Bank, part of the U.S. \$7.6 billion PNC Financial Services Group, had an established Web site that

featured online consumer, corporate, and mortgage banking services. The bank wanted to bring in new clients, to provide better service for existing customers, and to expand sales of online products, such as loans, bill payment, and mortgages.

The bank chose Siebel *dCommerce* to test a novel idea—auctioning off the annual percentage yields on bank certificates of deposit (CDs) without draining internal resources and in full compliance with Federal government regulations.

In September 1999, the auctions began. Utilizing a reverse-auction format, the site offered 25 to 50 CDs every other week. The auction has been a tremendous success. Thousands of customers now visit the Web site during each auction. And, as the first large bank to conduct CD auctions, PNC Bank has reaped the public relations rewards with national print and broadcast news stories.

Liquidating Used Inventory through an Online Auction: bLiquid.com

Linking businesses interested in buying or selling used construction equipment and industrial machines, bLiquid.com uses an online exchange to create efficiencies in an extremely large and fragmented industry. It turned to Siebel *dCommerce* for a flexible, dependable dynamic commerce software system, one that would enable one-on-one price negotiation. To structure the exchange format, bLiquid.com knew it needed a partner with flexible software and strong technical support.

In addition to creating new market efficiencies through online negotiation, the bLiquid.com Web site streamlines procurement by offering real-time financing and shipping cost information. Since launching in April 1999, bLiquid.com has created an active community of buyers and sellers, with over 7,000 registered users and some 15,000 items listed on the site at any one time.

Building an Online B2B Exchange: ecFood.com

Providing an online B2B exchange of food and food ingredients for the food manufacturing industry, ecFood.com started its business by offering auctions of bakery, dairy, and confectionery ingredients. The founders of ecFood.com used these auctions to generate interest, gain a foothold in the marketplace, and create an online community of buyers and sellers from scratch. The company chose Siebel *dCommerce* to host its auctions, reverse auctions, and fixed-price sales, and integrated it with an Oracle database.

The scalability of the Siebel software provided ecFood.com with a growth path, in addition to a solid base. The company credits Siebel *dCommerce* with helping it attract funding—the first milestone toward the goal of capturing a one-fifth share of the industrial food B2B online market. The founders believe that convenience, together with the cost and time efficiencies of the auction format, will transform all buying and selling in the food industry.

Meeting the dCommerce Challenge with a Multichannel dCommerce Solution

The eCommerce phenomenon has already created new winners and new losers in the Internet game—now the rules are changing once again with the introduction of dynamic commerce. Fully integrating a dCommerce strategy into any business is a challenge. The benefits, however, greatly outweigh the effort required. The companies that are successful at this integration plan will be the leaders in their respective industries. With the rapid pace of change on the Internet, the need to adopt a sound dCommerce strategy is urgent.

Siebel dCommerce supports a business's adoption of a dynamic commerce strategy. As the leading provider of dCommerce solutions, Siebel Systems is uniquely positioned to help companies gain early-mover advantages in their industries. No matter what stage of dCommerce integration a

company is in, Siebel Systems has a solution that will meet its current needs today and scale to achieve its goals in the future.

Siebel eCommerce is the only offering that integrates fixed and dynamic pricing into a complete, multichannel eBusiness solution. With Siebel Systems, customers choose not only how they want to interact with a company—via telephone, mail, or online—but also the way they prefer to transact their business—through fixed or dynamic pricing.

With Siebel eCommerce, companies optimize efficiency and profitability. Data mining and personalization drive new customer acquisition and repeat purchases. As a result of using an integrated solution, the customers of Siebel Systems maximize revenue and the lifetime value of their customers.

SIEBEL
eBusiness

www.siebel.com

World Headquarters

Siebel Systems, Inc.
2207 Bridgepointe Parkway
San Mateo, CA 94404
United States
Tel: 650-295-5000
Fax: 650-295-5111

Europe

Siebel Systems UK Limited
Siebel Court
20-22 The Avenue
Egham, Surrey TW20 9AU
United Kingdom
Tel: +44-0-1784-494900
Fax: +44-0-1784-494901

Asia Pacific

Siebel Systems Australia
Level 1, 80 Pacific Highway
North Sydney, NSW 2060
Australia
Tel: +61-2-9012-3100
Fax: +61-2-9012-3333

Japan

Siebel Systems Japan K.K.
Ebisu Prime Square 7F
1-1-39 Hiroo, Shibuya-Ku
Tokyo, 150-0012, Japan
Tel: +81-3-5469-3811
Fax: +81-3-5469-3812