

Chapter 8.12

Pricing Strategy of Online Knowledge Market: The Analysis of Google Answers

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ABSTRACT

This article addresses the different levels of pricing strategies for an online knowledge market. Based on the best practice from Google Answers, an online knowledge market is modeled as a marketplace where consumers ask and researchers answer questions to make knowledge transactions. Consumers optimally price their questions to obtain answers, and a firm maintains the online knowledge market by determining the optimal price allocation to researchers. Our study identifies two types of consumers, spin-off and mainstream, based on whether additional utilities will be derived from the market. In addition, we investigate how the firm can use minimal and maximal posting prices to regulate the knowledge market.

INTRODUCTION: ONLINE KNOWLEDGE MARKET

Recent years have seen an enormous growth and development of e-business. Internet technologies have revolutionized the shopping behaviors of consumers and the ways firms are doing business. Firms launch electronic storefronts to advertise their products and attract consumers to shop online. According to the Global e-Commerce Report by the Taylor Nelson Sofres (TNS) in 2002, 28% of global Internet users and 32% of U.S. Internet users have shopped online already or plan to do so. The TNS report also indicates that U.S. is the nation with the greatest proportion of Internet users in the world who are engaged in online shopping. Although online security remains the biggest single concern for those Internet users

who have not yet shopped online, the undisputable fact is that more and more people are using the Internet as the medium to browse product information first and then make purchases. The development of Internet technologies and the proliferation of electronic intermediaries make online shopping significantly easy because online shopping can save time and transportation costs as well as provide customers additional benefits such as product reviews, comparison of similar products, best price search, and other advantages which are difficult to obtain when they shop in local stores. For example, Half.com and Ebay.com provide online marketplaces for people around the world to meet and make transactions, which has significantly removed or relaxed the traditional constraints of time and location.

Internal knowledge markets have been found in every organization (Matson, Patiath, & Shavers, 2003) in which knowledge experts and knowledge seekers interact electronically to exchange their knowledge. In a similar vein, recent years have also seen the steady growth of online knowledge markets specializing in various domain knowledge and pricing systems. There are various online knowledge markets available in the economy, such as Intota.com, InfoRocket.com, Kasamba.com, Knexa.com, Keen.com, eBrainx.com, Liveadvice.com, Allexperts.com, and Swapsmarts.com. For example, Intota Expert Knowledge Services (www.intota.com) is a specialized service for science and engineering, materials science, industry and technology, and business question answering. Customers select an expert and contact him(her) directly. Kasamba (www.kasamba.com) has experts in a field whom customers contact directly with their questions and a bid price. Keen (www.keen.com) and LiveAdvice (www.liveadvice.com) provide services to customers who bid their questions to experts and will be called back on the phone. Customers then pay by the minute. Allexperts (www.allexperts.com) offers confidential services and uses direct email to experts for customers' questions. SwapSmarts

(www.swapsmarts.com) allows users to choose prices for their posted questions. These business practices provide classic examples for research on external knowledge markets.

Google Answers (answer.google.com) is the online market place similar to Half.com in the sense that potential buyers and sellers can meet to transact electronically. However, in contrast to the traditional transaction of physical goods, buyers set their prices for the "goods", the knowledge, that they want to purchase, and sellers choose from available offers from buyers to make transactions. At Google Answers, customers can post their questions and set a price between \$2 and \$200. Researchers hired by Google browse all the posted questions and decide whether or not to answer the questions based on their own valuations. A question can only be answered by one researcher; once the answer is complete, 75% of the price for the question will go to the researcher, and the other 25% will remain to Google for its maintenance fee.

Given the growing popularity of using online knowledge markets to acquire knowledge, it is naturally interesting to understand the working mechanism behind the online knowledge market. Specifically, what are the optimal decisions for a firm to maintain an online knowledge market? How should a consumer optimally price his(her) questions? When will a knowledge researcher choose to answer questions posted by requestors?

Different levels of pricing strategies are investigated in this article. First, a consumer's pricing strategy is analyzed, and two types of consumers are discovered on the knowledge market, *spin-off* and *mainstream* consumers, based on whether additional utilities are derived from the knowledge market. Second, the reasons of specifying minimal and maximal posting prices for the knowledge market are investigated; the firm may eliminate some spin-off consumers by designating a minimal posting price and increase its profit by mandating a maximal posting price. Third, the

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