Copenhagen Business School

MSc Marketing Management

Two sided consumer electronic markets: sustainability and future trends

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A mia madre,

Per essermi sempre stata vicino

E per tutto l'amore che mi ha dato

Table of Contents

ABSTRACT

The concept of two sided markets is not new in the economic literature.
Numerous contributions were provided concerning the functioning, structure and organization of two sided networks.
However, the amount of research conducted on the notion of two-sided networks applied to the online world remains low.
The objective of this paper is to comprehend the dynamics and main competition strategies for two-sided platforms, and, in particular, for classified providers.
For the purposes of the investigation, a case study was chosen: Bakeca.it, a classified provider operating onto Italy's territory, which focuses its business on the local aspect of its service.
To end with and in order to suggest future potential strategic moves for the company, a regression analysis was conducted to evaluate the ability of different network externalities to influence the users' choice when selecting a specific online platform.

0. INTRODUCTION

In recent years, the world has witnessed an explosive growth of electronic marketplaces. These platforms have granted participants with previously unexpected benefits and have, as a consequence, aroused high interest both in B2C as well B2B markets (Ferrari, 2000, Nairn 2000). The consequence of this evolution in consumers' buying pattern has been explored mainly from the perspective of a comparison of the differences between online and offline marketplaces and of the customer usability. The objective of this study is to explore this topic further with specific focus on a peculiar field of online two sided marketplaces, the one of classified listing websites.

The electronic marketplaces can have different configurations and range: from e-procurement tools for B2B markets to online auction to classified websites. Although the success of many of these examples, particularly in the B2B sector, might be questionable (Karpinski, 2001; Miller 2001), online marketplaces are nowadays an important reality, especially for consumer markets (Wang 2002).

Despite being characterized by a high heterogeneity, the growth in electronic marketplaces throughout the last years has mostly been carried out by the so-called C2C e-commerce platforms.

Ebay, Craigslist, Gumtree and other classified C2C websites are only few, although relevant, examples of the multitude of actors in this particular segment of the market.

An important distinction must here be pointed out. Classified websites generate revenues by enabling or facilitating commercial transactions between buyers and sellers of products and/or services. Different variations of the Classified Website Archetype exist. Ebay might be considered a classified retail website, where transactions are completed within the system. A different example is Craigslist, where buyers respond to listings outside the system. We can also find classified websites specifically designed for employment purposes, whereby employers and employees search for each other, establishing relationships outside the system. Finally, classified service Websites are available, whereby employers find and interact with contractors using the system (Nicholas 2006).

According to some authors (Jones, Leonard, 2006), traditional e-commerce methods and evaluation tools fail to understand the complex reality of consumer- to-consumer interaction, either mediated or direct, therefore requiring new methods of operations.

Narrowing our analysis on these types of electronic marketplaces, it is essential to correctly frame the analysis in order to understand the dynamics related to the complex interactions between the different agents involved in two - sided consumer market.

1. TWO SIDED ELECTRONIC MARKETS – RESEARCH QUESTIONS AND PROPOSITIONS

A considerable evolution in consumer buying patterns has taken place in recent years. The arousal of electronic marketplaces has raised many unanswered questions regarding the dynamic of the interactions on two sided online marketplaces. The merging of user experience, two sided and electronic marketplaces literature is not able to properly frame the subjects under consideration:

1) What are the factors influencing the competitive dynamics of online two sided markets?
2) What are the dynamics of electronic marketplaces in the Italian market in respect to more established realities?
3) What are the central factors that influence customer adoption in two sided electronic marketplaces?

This paper develops research propositions related to these questions. The propositions are based on relevant literature review, a case study focused on the Italian market, and a quantitative investigation elaborated on the resulting insights.
The literature review is used to answer the first question and to identify a model able to point out the variables that influence the behavioral pattern of consumers.
Attention first turns to the different business models that characterize electronic marketplaces. Next, the focus turns on three aspects able to influence online users in the choice of an online platform: network externalities, trust issues and user experience.
The qualitative business case investigates whether the insights coming from the literature find real applications in the current environment of two sided electronic marketplaces, with a particular focus on the peculiarities of the Italian markets.

Next a quantitative analysis is used to understand whether the factors emerging from the literature review and from the insights of the business case are able to influence the behavioral pattern of users in platform adoption. The base for the quantitative analysis is the model of Chun and Hahn (2007) adapted with the insights coming from subsequent and complementary literature, as well as from the features identified through the case study.

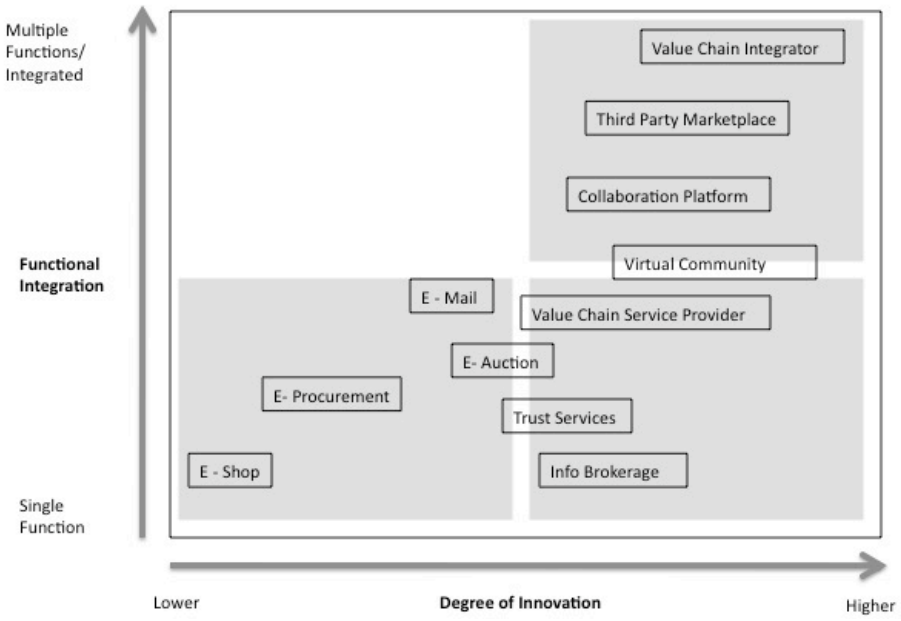
2.1 BUSINESS MODELS FOR ELECTRONIC MARKETPLACES

Purpose of the chapter

When framing the concept of two-sided markets, it is important to analyze the different business models that companies have adopted to compete in this peculiar environment.
This section categorizes and discusses the different types of business models currently being analyzed in the academic literature and shows how these different models are being implemented within the two sided market industry.

Business Models

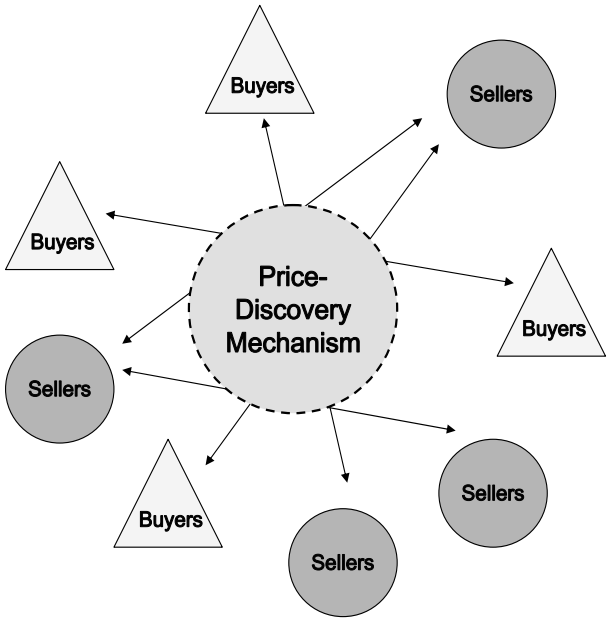
A first classification can be designed according to Timmers (1998). In his framework, he was able to identify eleven business models for online ventures. The author mapped them qualitatively along two dimensions: degree of innovation and extent of integration of the functions. The first dimension measures how innovative the way of doing business is, while the second dimension explains the degree of functionalities included in the business model.



Source: *Timmers (1998)*

In particular, third party marketplaces provide the user with an interface where he or she can use the providers' tools in order to conduct some form of brand marketing. Additional features such as branding, payment, logistics, ordering and ultimately the full scale of secured transactions can subsequently be added. Ebay represents a good example of a full-scale third party marketplace, while sites such as Craigslist and Bakeca only offer basic tools to facilitate communication and contact with other users.

According to another classification designed by Tapscott, Ticoll and Lowy (2000), classified websites might be considered an "Agora". An Agora is a website where buyers and sellers meet and interact, the objective being to find and offer products at an acceptable price. These websites favour a price discovery mechanism also by enabling the connection of a much wider base of users.



Source: *Tapscott, Ticoll, Lowy (2000)*

According to Bakos (1998), electronic markets "by matching demand and supply and by leveraging information technology facilitate the exchange of information's goods and services and payments associated with market transactions. They operate within an institutional infrastructure provided by governments and institutions", according to the following framework:

Table 1: Functions of a market

Matching Buyers and Sellers	
Determination of product offerings	- Product features offered by the seller - Aggregation of different products
Search (of buyers for sellers and of sellers for buyers)	- Price and product information - Matching seller offerings with buyer preferences
Price discovery	- Process and outcome in determination of prices

Facilitation of transactions	
Logistics	Delivery of information, good or service to buyer
Settlement	Transfer of payment to seller
Trust	Credit system, reputations
Institutional infrastructure	
Legal	Commercial code, contract law, dispute resolution, intellectual property protection
Regulatory	Rules and regulations, monitoring, enforcement

Source: *Bakos (1998)*

Performing these activities electronically has significantly lowered the cost for buyers and sellers. As a result, traditional intermediaries are progressively being replaced (Gellman, 1996; Gates, 1995) by platforms that allow buyers and sellers to interact directly. These platforms set the base for a more "friction free" market both in terms of information asymmetries and price transparency. According to Bakos (1998), in such an evolving environment, only the intermediary ready to compete by adding value for buyers and sellers, rather than exploiting these asymmetries, will be likely to survive.

There are different examples of markets in which two or more groups of agents interact via intermediaries or platforms.

Considering the current turbulent competitive environment, in the case of classified websites, agents choose to join different platforms at the same time.

In accordance with Rochet and Tirole (2006), multi sided markets are defined as markets in which one or several platforms enable interaction between end-users while attempting to get the multiple sides on board; appropriately charging each side is the key.

Implications for research question 1

Although scholars have considered the analysis of online business models as a good

framework to understand the dynamics of online marketplaces, in the case of online classified websites an other important concept has a meaningful role in framing the analysis: the Two Sided Market (Rochet and Tirole, 2001) subject.

Proposition 1: Business model analysis literature is suggestive in framing the analysis, but the concept of Two sided market is the one that seems to be capable to analyze the complex dynamics of online classified marketplaces.

3. TWO SIDED MARKETS: AN INTRODUCTION

Purpose of this chapter

According to *P1*, in order to be able to develop a coherent framework to analyze the interaction and behavioural patterns of online classified platforms it is important to understand the structural models that characterize two sided markets

Two sided markets

Two- sided platforms were first identified in the pioneering work by Jean-Charles Rochet and Jean Tirole, which began circulating in 2001. A significant theoretical and empirical literature rapidly emerged and the subject remains today an area of very active research in economics. Chakravorti and Roson (2004) frame the subject as follows: "Two sided markets are defined as platforms providing goods and services to two distinct end users, where the platform attempts to set the price for each type of end user to get both sides on board because the benefits of one type of end user increases as the participation of the other type of end user increases."

In order to balance the interest of the two sides and get both of them on board, these platforms adopt a specific pricing strategy (Parker and Van Alstyne, 2005).

As Wallsten (2007) demonstrates, it is particularly difficult to attract a sufficient number of members of the different groups and to understand how to correctly distribute them on each side, since the market characteristics are usually different on the two sides. In addition, the demand patterns and presence of one side strongly affects the other side, thus significantly increasing the complexity of the interaction.

There are numerous examples of markets in which two or more groups of agents interact via

intermediaries or “platforms”, such as: television channels (in which viewers typically prefer to watch a channel with fewer commercials, while an advertiser is ready to pay more in order to place a commercial on a channel with a greater number of viewers), credit cards (where a given user is more likely to use a credit card that is widely accepted by retailers, while a retailer is more likely to accept a card that is carried by more consumers) and shopping malls (where a consumer is more likely to visit a mall with a greater range of retailers, while a retailer is willing to pay more to locate itself in a mall with a greater number of consumers passing through) (Armstrong, 2006).

The strategy, pricing and design of all these businesses are planned to favor the interaction of different customer groups on the platforms, primarily through a reduction of transactional costs for one or both sides.

The analysis will now be focused on Internet Service Providers, where the two sides of the market are represented by the “eyeballs” of the users and by the advertisers. Such platforms are designed to maximize the chances that viewers will engage in interactions with the advertisements

3.1 Two sided markets in Internet networks

Two sided networks differ from traditional models in a fundamental way. In the traditional value chain, revenues and costs for a given company are extracted from two different groups of agents in the market.

In two-sided networks instead, one side is often subsidized despite the fact that the platform incurs in costs by serving both groups (Eisenmann, Parker, Alstyne, 2006).

Products and services that bring together groups of users in two-sided networks are platforms. They provide the infrastructure and rules, which facilitate the group’s transactions; they consequently act as intermediaries.

The intermediation activity, for the nature of its specific functioning, determines the existence of network externalities.

A large amount of literature is available concerning positive network externalities (Katz & Shapiro, 1985; Farrell & Saloner, 1985). However, in this literature, users belong to the same group and externalities are "intra- group" externalities, whereas in a two-sided market there are two different groups of users, and externalities are "inter-group" externalities.

According to Katz and Shapiro (1985), network externalities arise when the user’s utility

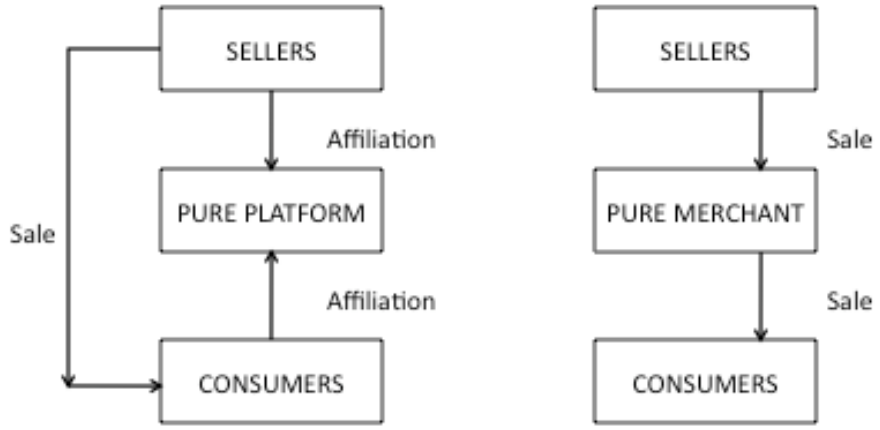
deriving from the consumption of a good increases with the number of other agents consuming the good. The consumption externalities can be generated through a direct or indirect effect. The former regards the direct physical effect of the number of buyers on the quality of a given product. For instance, the utility that a consumer derives from purchasing a phone depends on the number of other households or businesses that have joined the phone network.

The latter happens when users have larger expected gains, the larger the number of users on the other side of the market. In the case of two-sided markets, the network effects are always indirect, especially for infomediaries and online platforms.

The presence of network externalities for a two-sided market is a source of difficulties, since the platform needs to find a way to internalize them.

In order to clarify the role and the specific business model of a two-sided platform, we need to identify the differences between its structure and the structure of the traditional intermediation agents.

While market intermediation is not a new phenomenon, the digital economy has revealed that there can be two polar types of intermediaries: "merchants", who acquire goods from sellers and resell them to buyers, and "two-sided platforms", which allow "affiliated" sellers to sell directly to "affiliated" buyers. The main difference is, as a consequence, that merchants take full control over their sale to consumers, by taking possession of the seller's goods. On the other hand, two-sided platforms simply determine the relationship between buyers and sellers with a common marketplace while the control over the sale is entirely left to sellers (Hagiu, 2006).



Source: *Hagiu, 2006*

According to Evans (2004), we can identify several issues that occur repeatedly in two sided markets:

1. Getting both sides on board. An important characteristic of two sided markets is that the demand on each side vanishes if there is no demand on the other- regardless of the price. The businesses that operate in these industries have to figure out ways to get both sides on board.

   According to Caillaud and Jullien (2002), the indirect network externalities involved in a two-sided market, give rise to a "chicken and egg" problem: to attract buyers, an intermediary should have a large base of registered sellers, however these will be willing to register only if they expect many buyers to show up. The authors argue that a possible strategy for platforms would be to "divide and conquer" the market. This strategy entails price discrimination by providing lower costs to one side of the market. In this way the benefited group's participation is encouraged, which, in turn and due to network effects, encourages the non- benefited group's participation.

   Another strategy is to obtain a critical mass of users on one side of the market by providing the service for free or even paying them to accept it. This strategy is often seen during the entry phase of firms in two sided markets. In this way, platforms treat one side as a profit center and the other side as a loss leader, or, at best, as financially neutral. The network will therefore "acquire" the participation of some types of users in order to create value for other users (Jullien, 2004).

2. Balancing interest. Under multi-sidedness, platforms must choose a price structure and not only a price level for their service (Rochet and Tirole, 2003). As pointed out previously, businesses must carefully balance their two demands. They always have to consider how charging prices on one side of the market will impact the other side. Defining the optimal pricing structure is one of the key challenges of competing in a two-sided market. Platforms must perform the balancing work between the two sides, alongside various policy dimensions and not only with respect to the price structure. They consequently often regulate the terms of the transactions between end-users.

   Another factor that deeply influences the pricing structure is the possible presence of "marquee buyers" on one side of the market (Rochet and Tirole, 2004). Marquee buyers can be particularly important for attracting participants to the other side of the network, when they consider them as extremely valuable. Marquee users can be

exceptionally big buyers or high profile suppliers. A platform provider can increase its growth if it can commit marquee users to use its platform exclusively, thus without joining rival platforms (Eisenmann, Parker and Van Alstyne, 2006).

3. Multihoming. This phenomenon occurs when a fraction of end users on one or both sides connects to several platforms. In the specific case of Internet Service Providers, the term "multihoming" is today universally used to define those situations, in which some agents, in one or both sides of a two sided market, adopt more than one platform, so that interactions may occur through a series of alternative channels (Roson, 2004).

   Competitive prices on one side of the market then depend on the extent of multihoming on the other side of the market. Therefore, multihoming on one side intensifies price competition between platforms, which will use low prices in an attempt to "steer" end users to use their service exclusively.

   Multihoming affects both the price level and the pricing structure. The price level tends to be lower with multihoming, since the availability of substitutes tends to put pressure on the two-sided firms to lower their prices. Multihoming consequently implies a higher competitive pressure and tends to decrease prices (Evans, 2004).

A market can therefore be defined as being two-sided if, at any point in time, there are:

- Two different groups of customers
- Positive externalities, with a consequence that if the number of customers on one side of the market increases, the value obtained by the other side of the market increases as well
- An intermediary who is able to internalize the externalities created.

In order to properly frame the subject of analysis, it is relevant to understand which structural models for two sided markets had already been identified by previous literature.

3.2 Structural Models for two-sided markets

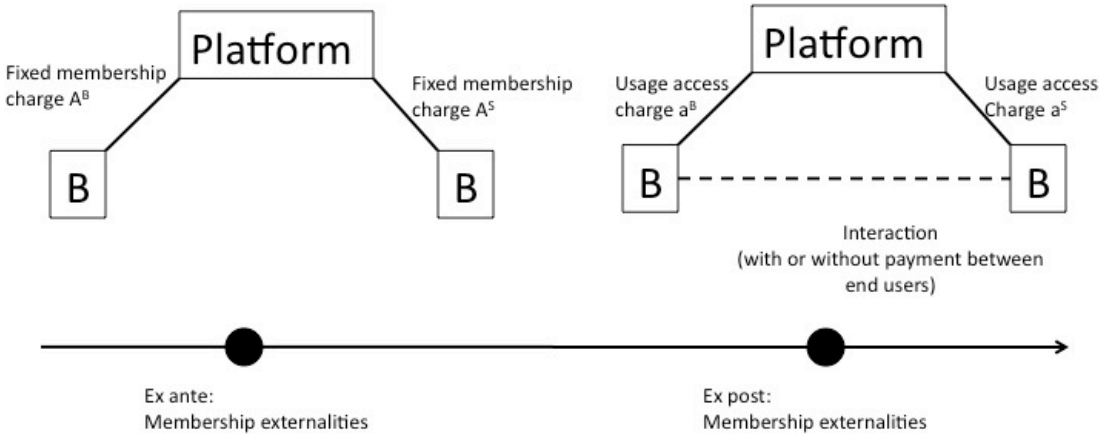
Through an analysis of the literature regarding two-sided markets, I came to the conclusion that three main models emerged over time.

I will therefore provide a brief description of the main contributions as well as the key

characteristics of each model.

3.2.1 Rochet and Tirole

Rochet and Tirole (2004) built a model that integrates and focuses mainly on usage and membership externalities.



Source: *Rochet and Tirole (2004)*

Gains from trade between end-users almost always arise from usage (e.g. a cardholder and a merchant derive convenience benefits when the former uses a card rather than cash). Usage decisions depend on how much the platform charges for usage.

Ex-ante, the platform may charge interaction-independent fixed fees, which determine the membership to that particular platform. To the extent that an end-user on one side derives a positive net surplus from interacting with additional end-users on the other side, membership decisions generate membership externalities (Armstrong, 2004).

Ex-post, the platform may charge for usage, which determines usage decisions. Usage externalities arise from usage decisions (e.g. if a cardholder benefits from using his card rather than cash, then the merchant exerts a positive usage externality by taking the card).

In the particular case of Internet platforms, the usage externality arises from one or several interactions caused by the ISP between websites and Internet users. According to Roson (2004), there are:

- Markets with only one interaction (e.g. estate agencies);
- Markets with several interactions (e.g. ISP market).

Rochet and Tirole (2004) introduce the concept of price level and price structure, the former

being defined as the total price charged by the platform to the two sides, while the latter refers to the allocation of the total price between the buyer and the seller. According to the authors, the price structure can provide a basis for identifying two-sided markets.

This definition gave rise to a notion, upon which all authors agree: economic efficiency can be improved by charging more to one side and less to the other one, relative to what the market delivers.

The pricing structure is therefore the primary condition regarded by the authors. Because pricing to one side is designed with an eye on externalities on the other side, often, standard pricing principles do not apply. Platforms must perform the balancing act between the two sides along various policy dimensions and not only with respect to the price structure. They therefore frequently regulate the terms of the transactions between end-users, screen members in non-price related ways and monitor intra-side competition.

The authors consider either a monopolist charging two-part tariffs or platform competition in pure transaction prices.

3.2.2 Armstrong

Mark Armstrong suggests three possible models for two-sided networks: a monopoly platform, a model of competing platforms, where agents join a single platform (two-sided single homing), and a model of "competitive bottlenecks" where one group joins all platforms (Armstrong, 2006).

According to this author, there are three main determinants of the equilibrium for these markets: the level of cross-group externalities, the way the price is fixed (fixed fee or per-transaction), and whether users join one or more platforms. In the case of a "two-sided single homing" scenario, different competing platforms exist, but each agent chooses to join one single platform for exogenous reasons. In a "competitive bottlenecks" scenario, the second group of the market might decide to freely join one platform independently from the decision to join another.

For instance, in the past of the television industry (Anderson and Coate, 2005) viewers were usually joining only one platform (single-home), while advertisers could join different ones (multi-home).

In numerous two sided-markets involving buyers and sellers, it is natural to assume that sellers view the competing platforms as more or less homogeneous, while consumers (buyers)

have preferences leading them to use a particular platform over another. This can lead to "competitive bottleneck" equilibrium, where sellers have their network benefits fully extracted, while buyers enjoy a price that is below cost.

3.2.3 Caillaud and Jullien

The model proposed by Caillaud and Jullien (2002) concentrates on two-sided markets for the specific case of intermediation via Internet. The authors focus on the peculiar features of online-two-sided markets: the presence of indirect network externalities, the possibility of using the non-exclusive services of several intermediaries at the same time, and the widespread practice of price discrimination based on users' identity and usage.

More particularly, as mentioned previously, indirect network externalities give rise to a "chicken and egg" problem: to attract buyers, an intermediary should have a large base of registered sellers, nevertheless these will be willing to register only if they expect many buyers to show up.

For the purpose of their study Caillaud and Jullien (2003) analyze a matchmaking intermediary for dating services. Using linear demand and a Bertrand pricing model, they explain why agents register with more than one service. In addition they point out how, under competition, two-sided network effects can lead one firm to corner all the market, or multiple firms to share the market with zero profits.

The authors first examine the case where all agents adopt a single-home. In this case, the competition is essentially perfect and, consequently, the efficient outcome is for all agents to use the same platform. On the other hand, when agents adopt a multi-home approach, there is a "mixed equilibrium", which corresponds to the case of "competitive bottlenecks" defined by Armstrong.

The authors therefore conclude that ::

Apart from the three main models discussed above, it is relevant to mention other contributions in the literature.

According to Chakravorti and Roson (2004), policymakers should promote competition among networks. They sustain that competition always improves consumer and merchant welfare. However, network profits decrease with competition. This result is also confirmed in the work of Evans (2006), who claims that monopolies are not the ideal result for a two-sided market, since the customers' heterogeneous preferences on either side encourage platform

differentiation. Additionally, platform differentiation, coupled with the low level of switching costs, results in multi-homing, which, in turn, provides demand for several platforms by customers.

Damiano and Hao (2007) as well as Bakos and Katsamakas (2004) introduce type heterogeneity into a model of competing matchmakers, since the formations of participant's decisions in a matching market depends on the distribution of different types of users in the market itself. They highlight that competition is not harmful in a two-sided market when a few types of agents can be distinguished, since sorting is likely to be feasible and hence the benefits of competition will be achievable.

The majority of models for two-sided markets in the literature suggests that platforms have to subsidize one side of the market, meaning setting a very low price, often equal to zero, to one of the two sides (Eisenmann, Parker, Alstyne, 2006).

Usual principles of competition in terms of price level and allocation are modified in two-sided markets. The strategy adopted is therefore not based on cost-oriented prices, but on the ability to achieve a balanced demand.

Yet, some Internet Intermediaries (e.g. Match.com) are able to set the same participation price for both sides of the network. However, this case can be optimal only under a special case where the two-sided network is perfectly symmetric.

Any two-sided network should, as a result, look for ways to optimize its pricing strategy by evaluating the asymmetry between the two sides.

According to the findings obtained from these main contributions to the literature, we can assume that, in most of the cases, the optimal design of the network is asymmetric, which in turn leads to an asymmetric pricing equilibrium (Bakos and Katsamakas, 2004).

Given the asymmetry of the network's structure, it is necessary to identify the right side to invest and create value. The optimal two-sided pricing strategy needs to take into account the relative strength and advantages of both sides of the network, and design technologies that can allow investments and make allocation decisions accordingly.

Prices do not and cannot follow marginal costs on each side of the market. Price levels, price structures and investment strategies must optimize output by harvesting the indirect network effects available on both sides. By doing so, businesses in two-sided industries might get both sides on board and solve the chicken and egg problem (Evans, 2002).

Adapting the work of other authors (Armstrong, 2006) to the specific case of classified websites, it is also possible to affirm that users interacting on the platform are usually not charged, as most of the revenues emanates from advertising.

Since advertising revenues are strongly connected to the users' presence, the different platforms battle in order to increase their users' base.

In particular, when considering the current advertising model of the market and its trend (cost per click, cost per acquisition), end users need to intensively use the platform rather than only joining or visiting it, in order to generate income for the advertisers.

Implications for the first research question

The introduction of the concept of two sided markets seems to be better able to frame the complex dynamics of interactions in electronic classified marketplaces. In particular, two sided markets are a peculiar type of online platforms where one side is subsidized to influence the adoption of the other side, while each side might join multiple platforms at the same time (multihoming).

Proposition 2 - Under this perspective, three concepts, important to lure in customers and keep them using the platform, come into play: network externalities, user experience and trust issues.

4 FACTORS INFLUENCING CUSTOMER ADOPTION

Purpose of this Chapter

A sound literature analysis is necessary to provide further insights on the P2 and its ability to determine the behavior of users on online market places, and in particular in the choice of a given platform

4.1 Network externalities

Recent literature on e-commerce and Internet has attached a lot of importance to network economics, and more specifically to the concept of network externalities to analyze the success or failure of Internet ventures (Shapiro and Varian, 1999).

Externalities can be positive or negative and arise simply because the participants exist in the network. In particular, positive externalities enhance the value of belonging to the network for all the participants.

The users' level of participation determines the level of externality generated.
According to Hsieh et al. (2007), network externalities increase the likelihood of e-business adoption, while reducing information asymmetry.
The concept of network externalities plays an important role peculiarly in determining the fate of C2C sites. A firm engaged in this business seeks to derive positive externalities by creating large communities of people with similar interests. This will enable the business to either sell marketing information or pool purchasing power. For this specific purpose, it is important to consider the effects of negative externalities, which may occur, for example, when communities migrate to competitive sites, or when the community is made unviable because the number of members is not sufficient. If this happens, the business could collapse rapidly.

4.2 User Experience

The user experience on a website is composed of the processes or steps that a participant makes to perform a specific activity. The design of these specific models determines the transaction's cost for the user. The usability of the models (screens, click, menus, choices, steps, layout of the page) is therefore a key point in measuring the effectiveness of the user experience.
Nielsen's (2002) definition of usability is "quality of user experience during interaction with a system". According to the author, the most important characteristics included in usability are:

• Learning ability: The system should be easy to learn so that the users can rapidly start getting some work done with the interface.
• Efficiency: The system should be efficient, so that once the user has learned the procedure, a high level of productivity is possible.
• Memorability: The system should be easy to remember, so that the casual user is able to return to the system after not using it for a prolonged period, without having to learn everything all over again.
• Errors: The system should have a low error rate, so that users make few errors while using the system, and can easily recover from them should errors occur.
• Satisfaction: The system should be pleasant to use, so that users are subjectively satisfied when using it and appreciate it.

McNamara and Kirakowski (2005) criticized the ease-of-use based definition of usability, as they claimed it excludes other valuable aspects of usage. What they proposed was that the quality of the experience was of greater importance than the quality of use.

As the importance of the Web increased as an interface, usability research focused more specifically on extending the basic usability principles onto the Web environment (Nielsen, 2002; Schneidermann, 1998).

Nielsen (2002) extended these design principles for Web design to include:

• Navigation
• Response
• Time
• Credibility
• Content.

This suggests easy-to-use navigation, frequent updating, minimal download times, relevance to users, and high-quality content that also take advantage of capabilities unique to the online medium (Nielsen, 1993). Navigation is an important design element, allowing users to acquire more of the information they are seeking and making the information easier to find (Machlis, 1998b). As a consequence, a key challenge in building a usable Web site is to create efficient links and navigation mechanisms (Radosevich, 1997).

Graphical design, layout, and actual content are prime components in rendering the page easier to use (Rasmussen, 1996). Text links are vital; navigation and content are inseparable; and key areas include navigational structure, searching, readability, and graphics (Spool, 1997).

Clearly, when evaluating different platforms, the usability plays an important role and might represent a discriminating variable for the choice of the user.

4.3 Trust issues

According to Mayer et al. (1995) trust is: "the willingness of a party to be vulnerable to the actions of another party, based on the expectations that the other party will perform a particular action important to the trustor". In the E-commerce sector, trust is important because it helps to reduce the perception of uncertainty and risk in the customers, which leads to favoring online transactions. In the case of classified websites, trust has to be felt by both buyers and sellers; they must be both trustors and trustees (Jones and Leonard, 2007).

Jones and Leonard (2007) have carried out a study to investigate the specific areas that can influence trust in a C2C context. They expected that trust could be subjected to an internal and external influence. The first refers to a person's natural propensity to trust and a person's perception of the website quality in past, mediated, C2C transactions. The second consists of other people's trust of the buyer and or seller and their recognition by third party institutions.
Their findings illustrated how both perceived website quality and third party recognition influenced C2C e-commerce trust. The online platforms should therefore continuously improve the quality of their website, by updating it and seeking to establish the highest quality. They should also endeavor to gain third party recognition, using clear and simple explanations. Third party institutions can help reducing some of the risks associated to an online transaction, and, in this way, increase the overall trust. McKnight et al (2002) referred to this as institution- based trust. This recognition is a fundamental requirement in conducting e- commerce since it could significantly increase the trust towards the transaction and towards the website itself.
While understanding the importance of these three concepts, it is relevant to properly frame the market dynamics in which classified websites operate.
As pointed out above, classified websites deal mainly with two sides of agents: users and advertisers. Classified websites might therefore be considered a peculiar type of a two-sided market.

Implications for the first research question

The three concepts seem to have a strong ability in influencing the choice of a given platform. It is then necessary to include these attributes in the factor analysis of research question 3
Proposition 3: Network externalities, user experience and trust issues may be able to influence the choice of a given platform

5. CASE STUDY: BAKECA - A TWO-SIDED PLATFORM

Purpose of this chapter

The purpose of the case study is to test whether the insight coming from the literature can be applied to the specific case of online classified websites. An additional objective is to understand the peculiarities of the Italian market. The case study has been elaborated on the basis of the company's financial and operational information as well as on the insights coming from in depth interviews with top management of the company.

5.1 Description of the company

Bakeca is the leading online classifieds destination for the Italian market. It ranks within the first 60 Italian websites (source: alexa.com) and counts over 240.000 visitors per day and 3,5 million visitors per month (source: Google Analytics), with approximately 140 pages seen every month. Additionally, Bakeca is the richest classifieds website in terms of content, having more than 320.000 listings posted every month.

Through a leveraging of the new opportunities provided by Internet technologies, the company provides a radically improved classifieds service to local communities, challenging the status of established paper-based classified services such as Secondamano.

Bakeca's business model was developed in order to follow the path of successful independent online classifieds initiatives launched in the more Internet mature markets of the US, UK and Germany. Bakeca has followed the footsteps of Craigslist.org (US), Gumtree.com (UK) and Opusforum.org (Germany), three initiatives that became lucrative businesses in a relatively short period of time despite limited access to resources.

Bakeca's mission is to aggregate local online communities in order to facilitate contact among individuals living in the same geographical area through an easy-to-use and anonymous web-based classifieds service. The specific strategy of its classifieds service is the focus on the local aspect, matching needs at a local community level. Bakeca addresses the need for individuals to advertise and search for products, services, events, relationships and information. Bakeca seeks to become the leader for such services on the Italian market.

The company has so far been able to achieve impressive growth in classified postings and visitors thanks to a creative, well planned and effectively executed portfolio of marketing initiatives.

"…Bakeca's Marketing Strategy is focused on offline and online activities. We were born by initially focusing just on offline initiatives, especially on street marketing activities".

Ismaele Marongiu, Product and Quality Supervisor

Bakeca focuses therefore its strategy on offline activities, such as university presence, events and street marketing, which are initiatives coherent with Bakeca's core target: students and young professionals. These all represent examples of direct marketing activities, involving

promotions in stands at various universities around Italy, the media hype on the streets with a yellow American school bus branded "Bakeca" and ensuring Bakeca's presence in trendy and happening clubs and dance bars around Italy.
A minor part of the marketing strategy is devoted to online activities and visibility. The company developed a series of viral marketing campaigns aimed at inviting target end-users to spread the Bakeca message to other friends within the online world.

"…We do not believe in aggressive online strategies. We want to be chosen by people because of the quality of our service, and not because we push users to do it. This is why we rely on word-of-mouth between our young target groups. Word-of-mouth happens for niche and hidden things, such as a good small restaurant in the city. Bakeca wants to work on the same principle".

Simone Cornelio, Marketing Manager

5.2 Online classifieds services in the world

Among localized services, the online classifieds area has already demonstrated to be a strategic application in the more evolved markets of the US, UK and Germany; in fact little known initiatives such as Craigslist, Gumtree and Opusforum became colossal players in terms of visitors and volume of classifieds managed.

Craigslist.org- United States
Craigslist is clearly the dominant online classifieds business in the United States. It was founded in 1995 by Craig Newmark for the San Francisco Bay Area and subsequently expanded into all major cities across the United States. Craigslist, despite operating with a staff of only 18 people, serves two billion page views per month for over eight million unique visitors and is considered to be in the top 50 of the most visited websites worldwide (source: Alexa.com).

Gumtree.com – United Kingdom
Gumtree is by far the leading player in the UK online classified business. It was founded in

2000 by Michael Pennington and Simon Crookall for the London area and subsequently expanded into other major cities across the UK. Gumtree was acquired by eBay in May 2005 for an undisclosed amount.

Opusforum.org – Germany

Opusforum, founded in 2002 by Klaus Gapp, is a leading city-based classifieds Web site in Germany. It offers a venue where people can make social connections, find a job and local resources, rent an apartment and trade a range of goods and services. Opusforum is available in 45 regions and cities in Germany as well as in 10 cities in Austria and Switzerland. With a focus on helping local communities connect online, Opusforum is a popular destination for jobs, housing, and services. Opusforum was acquired by eBay in August 2005 for an undisclosed amount.

5.3 Service Description

The Bakeca online classified website is accessible through www.bakeca.it. The service is available in Italy, and solely in the Italian language. There is a Bakeca classifieds site for each active city. Bakeca currently counts 34 active cities, 15 in Northern Italy, 11 in the Central regions and 8 in the South and the islands (Sicily and Sardinia). Each city features its own web address beginning with the city's name followed by Bakeca.it (ex. the city of Rome is identified as roma.bakeca.it).

In order to protect Bakeca's brand identity on the web, all combinations of relevant URL addresses have been registered or acquired by the company. As a consequence, all the following web addresses direct users to the Bakeca online classified website: www.bacheca.it, www.bacheka.it, www.bakeka.it, www.backeka.it, www.backeca.it, www.baceca.it, www.baceka.it.

Classified ads are organized in 6 major categories with related sub-categories, with the Home page also displaying the most recent classified postings, as well as useful links and information on the services offered.

5.4 Content and Community Governance

Bakeca's operations team constantly monitors end-user's activities to ensure that instance of

improper use of the service (accidental or deliberate) are rapidly identified and immediately corrected. These corrective actions are necessary to maintain a high quality of service to end-users looking for postings throughout the site.
End-users also have the possibility to report to the Bakeca operations team any false, suspicious or inappropriate postings for review and immediate removal. The website is also equipped with an open forum to collect end-user feedback on a variety of topics such as new categories that could be added, comments on existing services etc.

"… We introduced a system of collaboration with the users, by relying on strategies that have resulted successful for other classified platforms, such as Craiglist. In this way, users can report any suspicious posting to our team, that will examine it immediately".

Alessandro Chiaffredo, Sales Manager

5.5 Business model

Bakeca's objective is to offer the online classified service for free to all users until a critical mass of users is reached in a given city. Once the target usage is reached, the company intends to switch to a paid classified advertising model, initially in the jobs category and subsequently in the real estate category.
As from January 2009, Bakeca introduced a paid classified advertising model for the area of Veneto only, in order to use it as a test center. The paid classified model was applied for the Jobs category, with a fixed fee of 15€ for a single listing, and only 5€ for a listing pack. This generated a drop in the contents, but a consequent exponential increase of the mean visits per listing, and applications more in line with the job offering. This experimental strategy in Veneto has proved to be extremely successful in terms of increased quality for the service, and will be applied to other cities as from September 2009.

"…Our aim is to progressively introduce the paid classified advertising model in all the cities and regions we compete in. In this way, the switch to a paid model will not result too aggressive and immediate. We believe that the quality of the classified advertising will also improve with the introduction of the paid strategy".

Simone Cornelio, Marketing Manager

The volume of traffic for Bakeca has attracted many business clients, which motivated the team to create differentiated B2C advertising models, in order to satisfy the demand from different players, such as the big national companies, e-commerce websites and the small local players such as real estate agencies and shops, that can, by doing so, enjoy a visibility on the Internet even if they do not possess a website.

In fact, besides the already consolidated advertising instruments (text link, mini- banner), as from the 2nd February 2009 new products for the local B2C market were launched (Vetrina and Toplist25).

Vetrina enables small local companies to create their personal page on Bakeca.it, where they can provide a description of their business, informations about the company, a map to be localized and, more relevantly, a list of their current available services. In this way, small local companies and firms, which do not have a website, can gain visibility on Internet thanks to Bakeca.

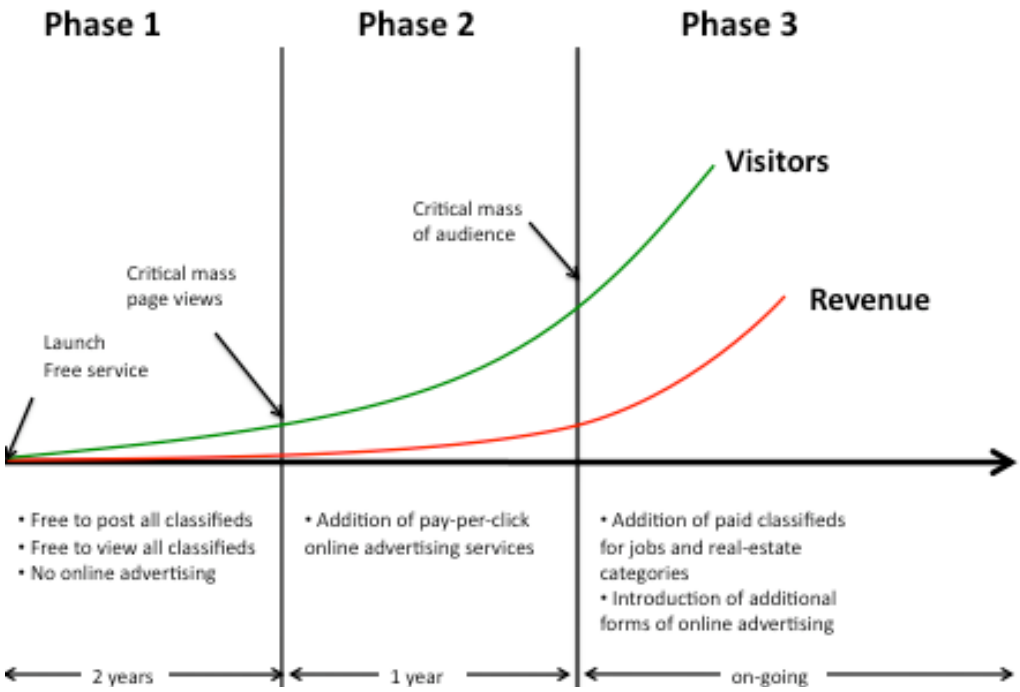
The other new service offered by Bakeca.it is Toplist, an instrument used both by national companies and local markets. Toplist is a service that automatically republishes the listing once or three times per day, in a chosen time slot.

In early 2007, the company introduced an online advertising revenue model with targeted text links on a pay-per-click basis through Google (Adwords) and Yahoo (Overture). This area already demonstrated promising results and is expected to represent a valuable revenue stream for Bakeca in the coming years.

"... The thing that differentiates Bakeca from our competitors is that we have a No Label contract with Google. This means that Google never displays the Google name on the websites of Bakeca, since there would be the risk of cannibalization of Bakeca's brand".

Alessandro Chiaffredo, Sales Manager

Bakeca's business model is evolving over three distinct phases:



PHASE 1: Initially, the company focused on the creation through rapid build-up of brand and audience at local community level. At this stage, the business strategy was to attract a vast number of users and create the basis to build up a community. Users were able to post and view all classifieds for free, and the company did not use any kind of online advertising.

PHASE 2: Once the network of Bakeca classified sites attracted sufficient traffic, online advertising services were launched to leverage the "media value" of the site through the pay-per-click model. This phase started in 2008 and it was estimated that, approximately three years after the launch, each city would reach the critical mass of audience necessary to successfully introduce sustainable paid services.

PHASE 3: This phase will involve the use of paid classifieds for jobs and real-estate categories, and the introduction of additional forms of online advertising

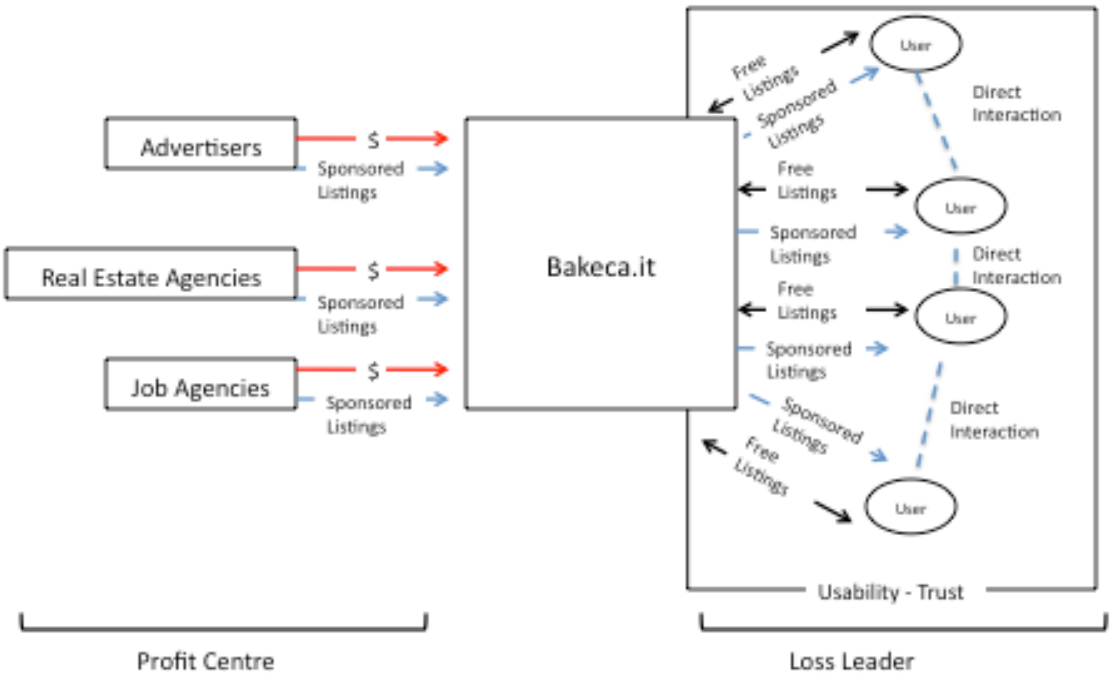
5.6 Theoretical analysis

Trying to define Bakeca's business model according to the classifications provided by the literature, it is possible to claim that the company can be defined as belonging to an "Agora" model (Tapscott, Ticoll and Lowy; 2000). As depicted in the graph below, buyers and sellers can interact through the platform in order to perform their desired online activities.

Therefore, Bakeca can be considered as an example of a two-sided network. Bakeca is a platform that provides the infrastructure and rules, which facilitates group's transactions, and, therefore, acts as an intermediary. Looking at Bakeca's business model under the perspective of Rappa (2000), and Rahul et al. (2001), Bakeca can be considered as belonging to an advertising model, since the website supplies content and services, mixed with advertising messages in the form of banner ads.

According to Timmers (1998), Bakeca is an example of a third party marketplace. In particular, the interaction between buyers and sellers is facilitated by the use of a common platform. Moreover, Bakeca is a tool for advertisers, real estate and job agencies to conduct some form of brand marketing.

The specific two sides served by Bakeca are the advertisers and the users. The platform is designed to maximize the chances that viewers will interact with the advertisements.



Source: Personal elaboration

The entry strategy of Bakeca coincides with one of the possible strategies of online platforms defined by Caillaud and Julienne (2002): obtaining a critical mass of users on one side of the market by offering them the service for free. In this way, advertisers are treated as a profit center, and the users as a loss leader.

The implication provided by Evans (2003), that the price of each side in a two-sided network

can be different, is consequently confirmed in this case.

Specifically, the revenue streams for Bakeca come from the side of advertisers, real estate and job agencies; while the side of the users is subsidized.

It is particularly important to note that, for platforms operating on the Web, the pricing strategy is not based on cost-oriented prices, but on the ability to achieve balanced demand (Cortrade, 2006).

Building scale rapidly is a critical factor because once a leading player is established in the local market, the barriers for the entry of others become stronger. As demonstrated in other countries, this is clearly a business where the first few successful initiatives establish a significant and lasting lead over their competitors. Since users will choose the services that will be the fastest at matching their needs, and advertisers will tend to direct their spending on the most popular sites with leading audience figures, strong network externalities are present.

Bakeca's entry strategy was focused on the creation of a critical mass of users posting classifieds but also interested in browsing and replying to classifieds on offer. Bakeca has chosen to launch its services in one city at a time in order to concentrate all available marketing and content management resources with a direct strategy.

The predominant view in the company is that technology or business processes cannot be considered as effective barriers to entry. The only possible barrier is in fact the creation of large online local communities. Bakeca hence concentrated its efforts on capturing a dominant market share and strong brand awareness in the online classified business in as many local communities as possible, and thus across Italy.

Unlike other competitors Bakeca has chosen not to open websites in all major Italian cities at once in order to preserve the quality and reputation of the service to early end-users in every single local market.

Major efforts were made to collect classified postings from other relevant sources (online or offline), contacting their owners and convincing them (by e-mail or telephone campaigns) to use Bakeca as a channel to post their classifieds.

5.7 Competitive Landscape

There are a number of players currently active in the Italian online classifieds markets. These competitors can be classified in the following categories:

- Local classifieds magazines, defined as the online division of traditional paper-based

classified services. These sites merely represent an accessory to the paper-based business model and are carefully designed to avoid cannibalization of the publishing revenue stream. In Italy, we can find two examples of these sites: secondamano.it and lapulce.it.

- National newspapers comprised of online services offered by the web-portals of national newspapers. They are considered as an extension of their existing paper-based classified service offering. The following two services are worth mentioning: corriere.it/annunci and lavoro.repubblica.it.
- Online job-search services, which consist in specialized employment search sites. For the online Italian market, two sites are worth mentioning: monster.it and stepstone.it.
- Pure-play online local classified services: these are initiatives such as Bakeca, devised with the sole mission of creating an online local classified service.

With respect to Bakeca's specific business, we can claim that online pure-players are likely to be Bakeca's most prominent competitors as they offer similar services and clearly possess a comparable medium to long- term business strategy.
Online job-search services and national newspapers are national in nature and do not present local branding or localization functionalities. On the other hand, local classifieds magazines offer little or no anonymity, as user registration is required to access the service and post classifieds.
In Italy, Bakeca is therefore in competition with the following two online pure-players: kijiji.it and subito.it.

"… Our estimates suggest that we have an advantage over our main competitors, since we have a high percentage of loyalty. More that 70% of our users are returning on the website, and can be defined as regular users".

Simone Cornelio, Marketing Manager

Kijiji.it, eBay's classifieds initiative is active in Italy since early 2005. The service is offered as part of eBay's drive to enter the online classifieds business with a single international brand. The service has already been launched in over 20 countries worldwide. Kijiji possesses the major advantage of being able to leverage eBay's dominant market presence. However, its brand constitutes a major element of weakness since the word kijiji has no meaning in Italian and is clearly unsuitable for widespread brand recognition (letters K and J do not exist in the

Italian alphabet and are seldom used).

Subito.it is an online classified initiative owned by Schibsted, a major Scandinavian media group with the ambition to become one of the dominant media players in Europe. Schibsted has conducted a number of acquisitions across Europe and classified are at the heart of its growth strategy. Most importantly, it has acquired Trader Classified Media and is aggressively pursuing the online classified market in various markets throughout Europe. In early 2007, Schibsted launched www.subito.it on the Italian market in substitution of Trader's previous pure-play online classified service www.annuncigratuiti.it.

5.8 Future Trends

There is currently no dominant player in the Italian online classified market, since this business is at its very early stage. None of the existing initiatives has any relevant record of service nor did they truly manage to create a significant online local community along the lines of Craigslist, Gumtree or Opusforum. It is fair to conclude that Bakeca has a significant opportunity since the Italian online classifieds market is entirely up for grabs.

"…Our general perception regarding the future is that, in the Italian market, a monopolist will not emerge. There is place for everyone, since the main competitors are concentrating their efforts on different parts of their services. For example, Bakeca is more focused on the real estate and job classifieds, while Kijiji and Subito value more the buying/ selling offers".

Alessandro Chiaffredo, Sales Manager

The online initiatives of local classified magazines and traditional newspapers are unlikely to be among the winners.[*]

In fact, their efforts to defend their existing paper-based revenue model will inevitably have a lethal impact on their prospects in the online world.

This was clearly the case in the United States. Despite the strong presence and undoubted success of Craigslist over many years, US newspapers and Classifieds publications ultimately failed to play any significant role in the booming online classifieds market.

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[*] Source: Business Analysis and Research; Newspaper Association of America. Available at: http://www.naa.org/TrendsandNumbers/Advertising-Expenditures.aspx.

The role and revenues of online job-search services are also likely to diminish as local online classified services gain strength. This affirmation is primarily based on a significant gap between cost and benefit of a site like Craigslist and paid sites such as Monster, CareerBuilder and HotJobs. The typical cost charged by online classifieds services is negligible when compared to the prices of the online job-search sites. Moreover, the outcome is often more effective.

Classified ads sites have an advantage over specialized websites, since they represent a "one-stop-shop" for different categories, from jobs and apartments, to community services and electronic devices. However, users do not buy directly on classified websites but use the sites to set up meetings; transactions are thus conducted in person or by email, a characteristic that separates online classifieds from shopping and specialized websites.

Pure-play online local classified services will represent the real competitive challenge for Bakeca in the coming years, in particular Kijiji and Subito, which are both foreign managed and entered the Italian market around the same time as Bakeca.

However, Bakeca's team firmly believes that the local classifieds market does not benefit from economies of scale related to international brand building.

Major effort were also made to ensure that the Bakeca sites are web-crawler friendly, to allow search engines such as Google to quickly index the contents of Bakeca's website and present them through their search services to end-users. The so-called Search Engine Optimization (SEO) exercise led to several hundred thousand Bakeca classifieds ad pages being already indexed by Google, meaning their contents are fully searchable and accessible to users through the Google search engine.

"…We created a spin-off company, called SeoLab, which is in charge of all the SEO processes for Bakeca. For example, SeoLab posts regional fan pages on social networks such as Facebook and incites discussions of users in order to direct them to the Bakeca website".

Ismaele Marongiu, Product and Quality Supervisor

As mentioned previously in my analysis, the strategic objective of Bakeca is to rapidly build scale in order to gain advantage over competition. Attempting to reach a critical mass of users for each region/city is the strategy adopted by the company. In order to reach a critical mass of users, the company should focus its efforts on building positive network externalities from its customers.

Positive network externalities could lead to an increased and continuous usage of the platform

over time.

Implications for the second research question

Given the peculiarities of the online classified market in Italy, the company under investigation is performing relatively well vis à vis its main competitors. However, despite its high potential, the Italian market is still characterized by a low penetration of online classified services due to infrastructural as well as trust issues with regards to online services that determines substantial difficulties in reaching the critical mass required for a successful development of the business.

6. CASE STUDY: BAKECA AND NETWORK EXTERNALITIES

Purpose of this chapter

The purpose of this chapter is to understand how the previously mentioned network externalities apply in the specific case of classified listing websites.

Classified advertising is a market where network externalities play an important role.

Generally, network externalities arise when the consumer's utility of a product or service increases with the number of users of that same product or service. However, in two-sided markets, network externalities become even more important, since they represent a fundamental part of the very existence of two-sided networks.

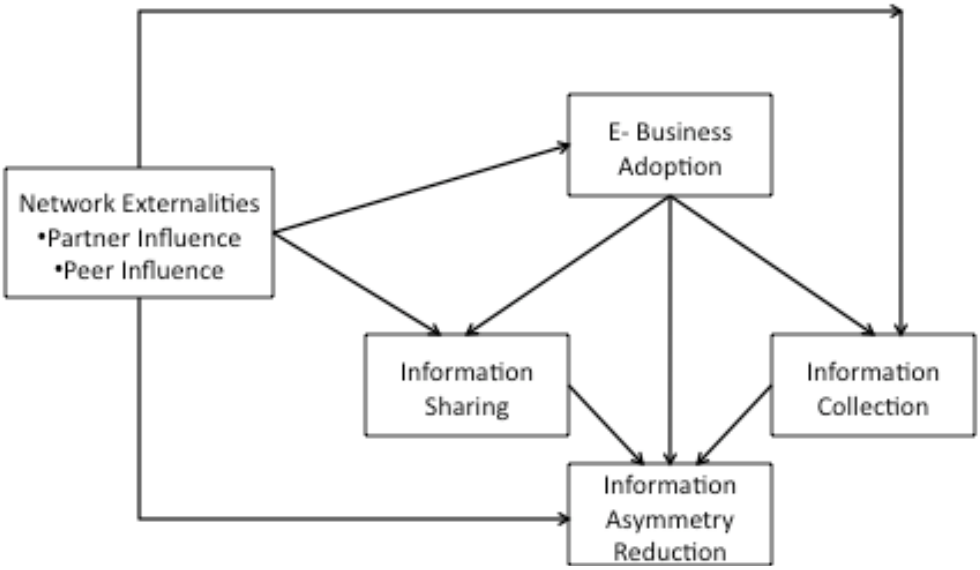
As Asvanud et al. (2004) demonstrated in their analysis of peer-to-peer sharing networks, negative network externalities can also arise for online platforms.

Bakeca avoids, at least in part, negative network externalities because the company does not invest heavily in viral marketing and co-creation of advertising/content, in order to avoid negative publicity.

Technological, organizational, managerial and environmental factors all have important influences on e-business adoption. However, the understanding of the influence of network externalities on e-business adoption remains limited (Zhu, Kraemer, Gurbaxani and Xu,

2006).

Hsieh et al. (2006) suggested a conceptual model to investigate the interrelationships among network externalities, e-business adoption and information asymmetry.



Source: *Hsieh et al. (2006)*

Since positive network externalities enhance the value of e-business as the size of the e-business network increases, there is an incentive for companies to adopt e-business. Companies and users are thus more likely to adopt e-businesses when greater network externalities exist.

Network externalities have a significant influence on information sharing, information collection and information asymmetry. This means that companies and users are more likely to share and collect information to reduce information asymmetry if more users and partners companies adopt the same e-business.

Having provided a theoretical background, which demonstrates that network externalities are linked to the concept of e-businesses, my aim is to suggest a model in order to study what the key influencers are regarding the adoption of a given online classifieds platform.

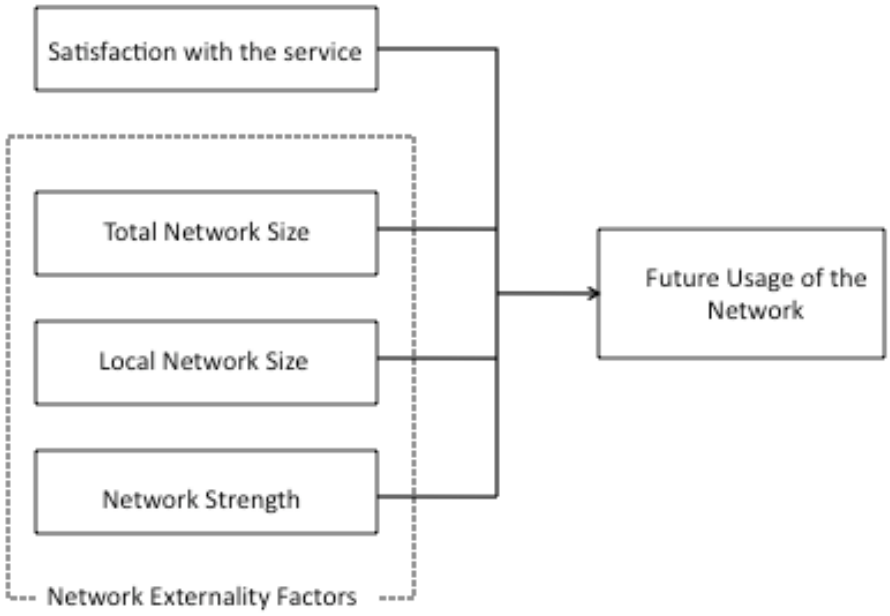
A common understanding in the network externality literature is that total network size is the most powerful competitive advantage. A firm, which has taken advantage of building a larger installed base in the early stage of a product market, is expected to be the leader in the market. However, in many cases market followers with smaller network sizes catch up with market

leaders who have larger network sizes.

It is therefore important to identify other factors on top of total network size that affect the success of networks.

In order to identify these other factors, I elaborated my analysis starting from a previously defined model, and redefined it by adding a number of different variables, which I thought were important for the adoption of online classified platforms.

Chun and Hahn (2007) investigated the different effects of three network externality factors: local network size, network strength and total network size, on online messenger, online community as well as chat rooms and e-mail services.



Source: *Chun and Hahn (2007)*

In their paper, the hypotheses are tested with a regression model using a survey data collected from 107 MBA students. According to the authors, the future usage of each network is affected primarily by the three factors mentioned above.

The total network size is identified as the total number of users in the network.

The local network size is identified as the active network, meaning the network with which every user has a certain kind of communication.

Network strength is defined as the total amount of interactions that consumers make in a given period of time. The higher the level of cohesiveness between participants, the higher will the strength be.

The authors used the following regression model in order to test their hypotheses:

$FU = \beta_0 + \beta_1(SAT) + \beta_2(TOTAL) + \beta_3(LOCAL) + \beta_4(STRENGHT) + \beta_5(GENDER) + \beta_6(AGE)$

Where:

SAT= satisfaction with an Internet service,

TOTAL= total network size,

LOCAL= local network size

STRENGHT= network strength, and

FU= future usage intention of the network service.

The results obtained by the authors show that, as expected, satisfaction with the services significantly affected the future intention to use the network. Furthermore, local network size and network strength resulted important factors, especially for the online messenger service and online communities, where local network size is more important than total network size. On the other hand, for chat room services, total network size is the most important factor. While the authors concentrated their efforts along different online services, the focus of my analysis will be centered on classified websites.

Implications for the research question

Analyzing how the broad concept of network externalities is then adapted to different online services represents a good starting point in order to develop an analytical framework to identify the factors that are able to influence the choice of a given platform. In particular the model of Chun and Hahn (2007) adapted with the insights coming form the in depth interviews and from the literature review seems to be a good starting point to develop an analitycal framework for the third research question.

Proposition 4 –Total network size, local network size and network strength may have an influence in determining the behavioral attitude of users in the choice of a given platform.

7. EMPIRICAL ANALYSIS

Purpose of this chapter

The objectives of this part of the study are to use the items highlighted in proposition three (*P3*) and four (*P4*) to study their ability to influence network choice and to understand their relative weight, in order to answer to the third research question.

7.1 Methodology

I chose to rely on a case study in order to show the functioning of a two- sided market in its structure and strategy, particularly applied to the context of online two sided platforms.
Moreover, online classifieds have demonstrated a wide growth in more evolved markets such as US, UK and Germany; in Italy classified websites became known only in the last couple of years as the business is at its very early stage. None of the existing competitors in Italy has any relevant record- online classified market is entirely up for grabs.
Another strategic objective of the case study implementation is to see the evolving phases for the growth of two-sided platforms over time, in particular referred to the pricing strategies and balancing the interests of the two different sides.
Particular attention is paid to the entry strategy in the market and the competition analysis.

Following the literature review, I chose the already mentioned model defined by Chun and Hahn (2007) as the main reference for my analysis.
It was then necessary to refine the model according to the peculiarities of online classified platforms and to the insights coming from in-depth interviews with Bakeca's team, as stated in the previously mentioned propositions.
The purpose of conducting in-depth interviews was to have a deeper understanding of the strategic directions of the company, as well as to gain a better knowledge of the different perspectives of individuals involved in the respective functions.
Face-to-face interviews offer the opportunity to participants to express themselves in a way that cannot be done through traditional methods. They are useful for learning perspectives of individuals, as opposed to, for example, group norms of a community, for which focus groups are more appropriate.

According to these different perspectives, it was possible to elaborate the following list of

items:

- Ease of use
- Trust
- Opinion leaders
- Age
- Total network size
- Local network size
- Frequency of use
- Multimedia

I believe that, for the purposes of my analysis, testing the influence of age, total network size and local network size on the intentions of usage of a given platform remains extremely relevant in the context of classified providers, as highlighted by the study of Chun and Hahn (2007).

I deliberately decided not to analyze the influence of gender as other studies confirm that no significant differences between sexes exist in the patterns related to the usage of classified websites.

Demographics of online classifieds users

The percentage of each demographic group to use online classified ads sites, such as Craigslist, in 2009.

	% Who have ever used classified ads sites	**% Who use these sites on a typical day**
All internet users	49%	9%
Gender		
Male	51%	12%
Female	47%	7%

Source: Pew Internet & American Life Project survey conducted from March 26- April 29, 2009.

In my analysis, the variable "satisfaction" has been broken down in two distinct variables whose importance was widely confirmed by previous literature: ease of use and trust.
Ease of use refers to the concept of user experience (Nielsen, 2000), more particularly to the navigability and user-friendliness of the website.
Trust, on the other hand, is related to the ability of a brand to reduce the perception of uncertainty and risk for the customers. A high level of trust could not only favor online transactions but also lead to a higher customer loyalty (Jones and Leonard, 2007).
With the variable "opinion leaders", I intend to test whether the presence of marquee users (Rochet and Tirole, 2003) and important companies in the network influences the adoption of the platform.
I believe frequency of use to be a better indicator for the level of involvement of the users in the platform itself. The variable strength identified by the authors (Chun and Hahn, 2007) implies a level of cohesiveness between users that is traditionally absent and hard to obtain in online classified services.
Finally, multimedia relates to the possibility of using interactive services in the platform (possibility to insert images, videos…).

7.2 Sampling and Design

A sample gathering 176 participants took part in the survey. Data was collected through a personally administered online survey. Participants came mainly from the network of alumni and students of Bocconi University. Drennan et al. (2006) is worth mentioning, since he argued that university students are ''representative of a dominant cohort of online users''.
The respondents' age ranged from 17 to 43. The mean age was 24. More than 93% of the respondents had experience in the use of Internet services for activities of buying/selling online, renting apartments/rooms and job searching.
The first part of the questionnaire aimed at understanding the general user's usage patterns when performing activities online. The available categories of websites were: specialized websites (such as Monster for jobs or Easystanza for renting rooms), auction websites (such as Ebay) and, finally, classified websites (such as Bakeca or Kijiji). In order to capture their level of interaction within these categories, the participants were asked to indicate on a ten-point Likert scale the frequency at which they were performing different activities (such as job or apartment search) on the various platforms.

The second part of the survey was used to profile the usage frequency and depth of online classified websites.

The third part was specifically designed to study the importance of selected attributes in the usage of online classified websites. Participants were asked to indicate on a ten-point Likert scale the degree of relevance that they associated with the items. The attribute "number of cities available" was used in order to estimate the importance of total network size for the participants. On the other hand, the attributes "number of listings per city" and "number of listings per category" were used to judge the importance of local network size for the participants.

In order to test the relevance of the presence of marquee users (Rochet and Tirole, 2004) in the platform, participants were asked to rate the importance of having "recommendations of well known websites".

The last part of the questionnaire focused on the analysis of Bakeca's performance, across the previously defined attributes. This part aimed at understanding how Bakeca is performing across areas that could be considered relevant for the choice of a specific network in order to point out potential areas of improvement.

To end with, participants were asked about their intentions concerning future usage of online classified websites.

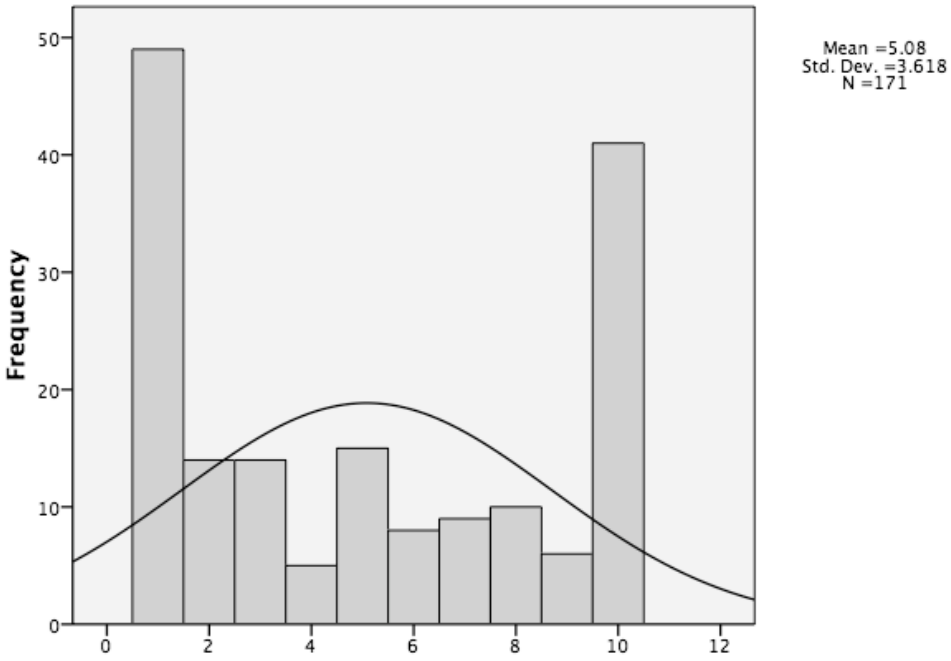
8. RESULTS

8.1 Usage patterns

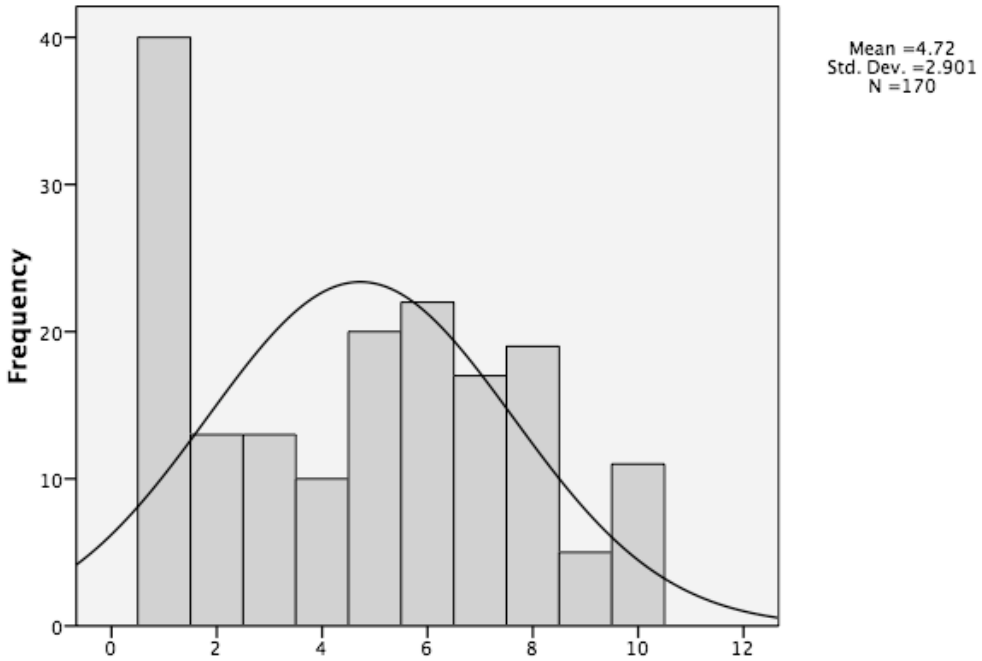
Results show that participants are using online services on a fairly frequent basis for buying and selling goods, searching and renting houses or apartments and for job-hunting. However, these activities are performed with significantly different patterns for the different platforms.

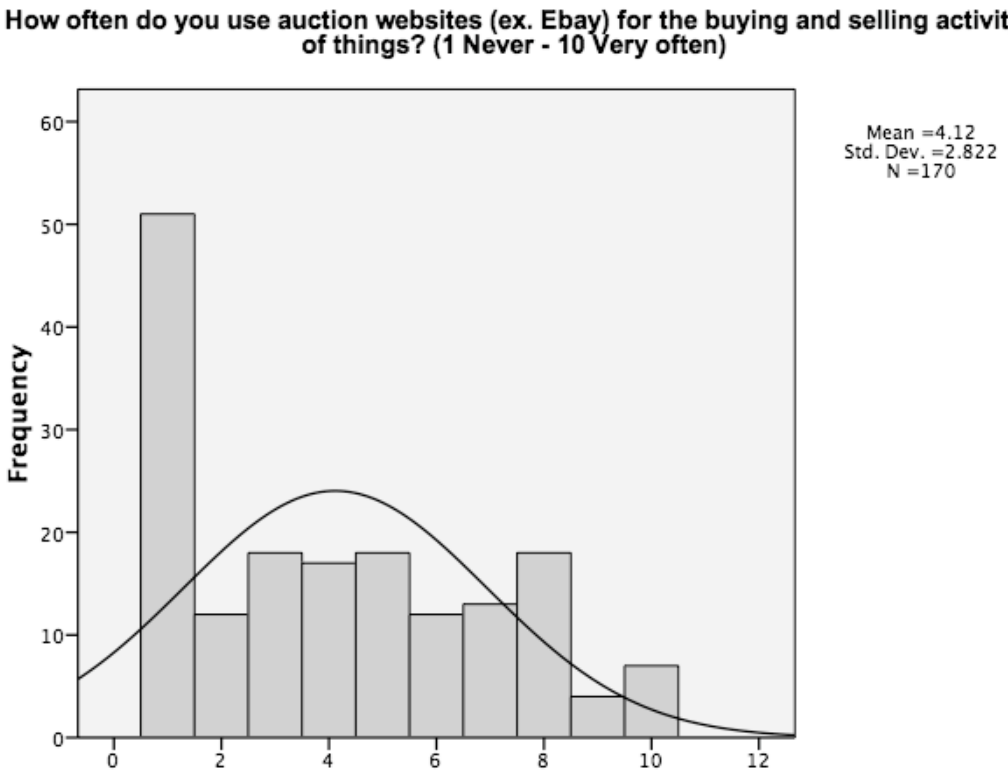
In particular, for the online purchase activities of goods, participants seem to prefer well-established specialized websites to auction and classified websites. In the specific case of classified websites, the pattern of usage is widely spread between recurrent users and non-users, whereas in the other two cases the variance is significantly lower.

How often do you use classified websites for the buying and selling activity of things? (1 Never - 10 Very often)

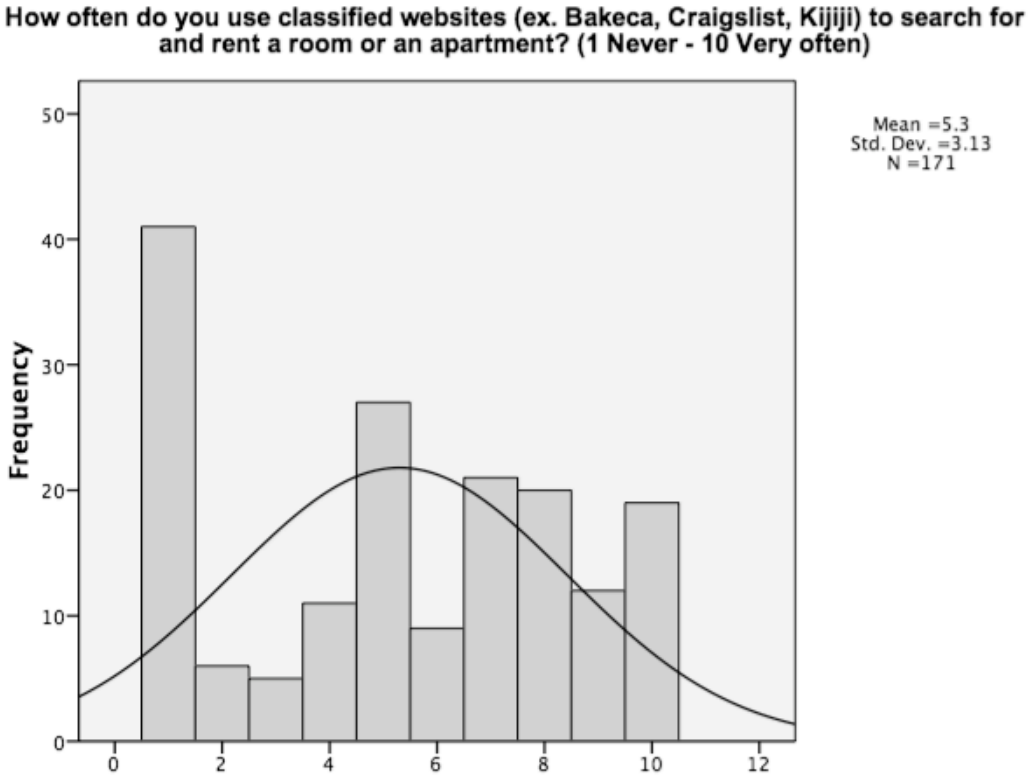


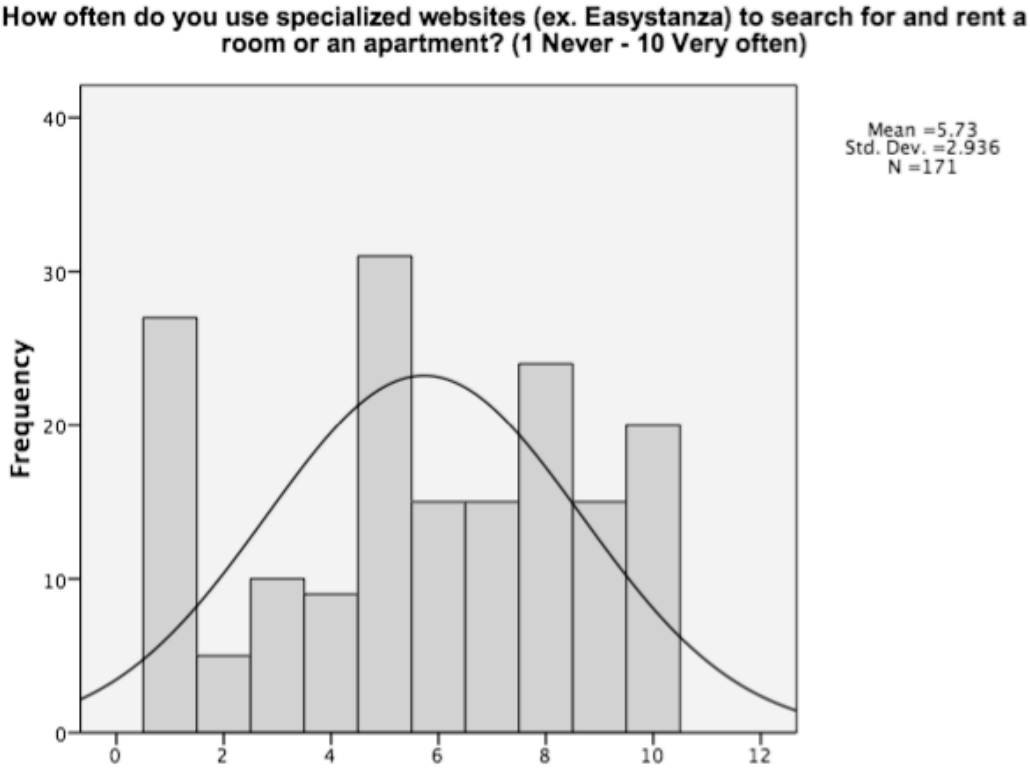
How often do you use specialized websites (ex. Amazon) for the buying and selling activity of things? (1 Never - 10 Very often)



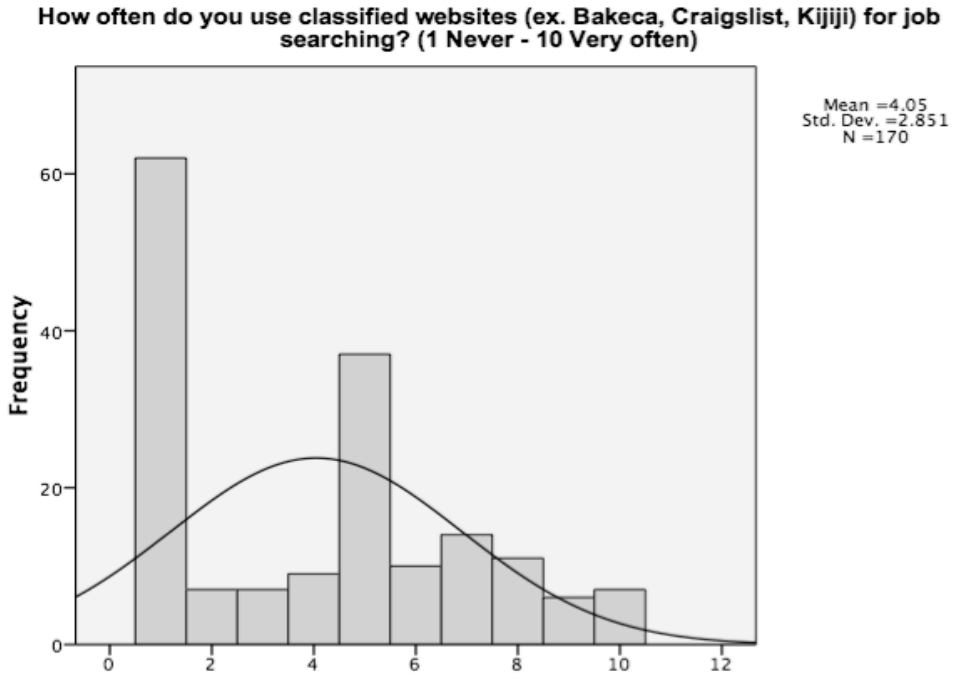


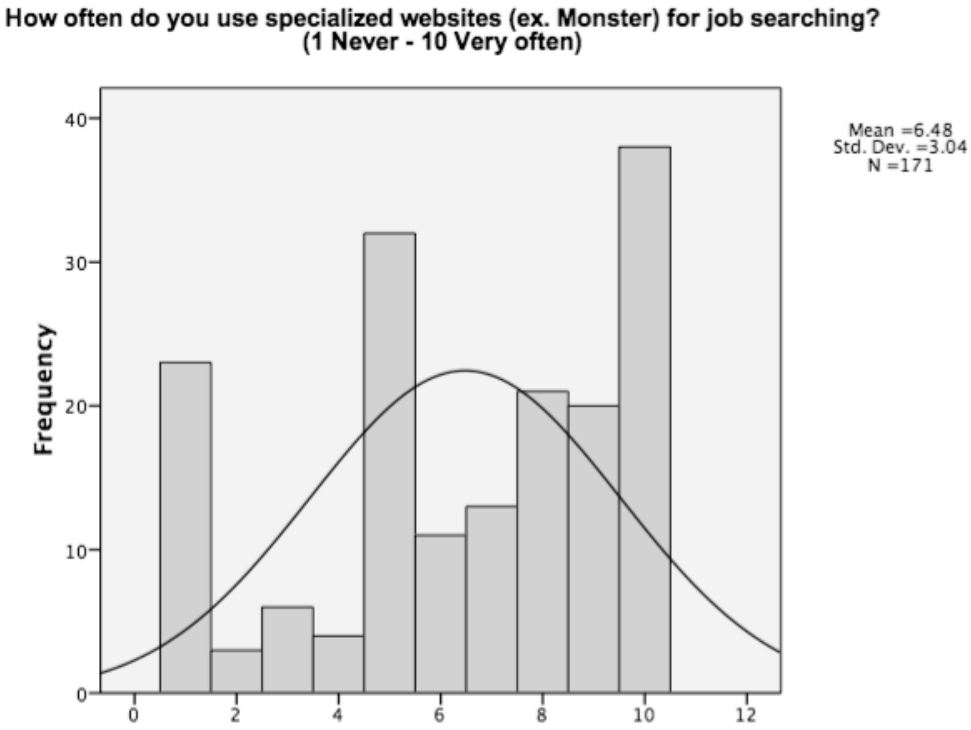
With regards to house and apartment search, the gap between specialized websites and classified ones seems to be reduced. We can argue that most of the participants are using the two platforms jointly for the activity under investigation, as the correlation between the two frequencies is significant (p value <0.001). (See Exhibit 1).





Specialized websites are leading the preferences of the participants also in the category of job search services. The gap between websites such as monster.it and its competitors and classified websites is particularly relevant for this category.





8.2 Usage frequency and depth

The results of the second part of the questionnaire (See Exhibit 2), aimed at studying the usage frequency and depth of classified websites, reveal that the time spent on the platform is

indeed quite limited. Seventy-five percent of the participants use the platform less than 5 times a month, with less than 10 listing browsed per visit.

On the other hand, the high level of variance seems to confirm that the usage pattern for classified websites enables to define two different groups of users for this specific online platform: heavy users, who visit the website frequently and deeply, and disaffected users, who browse the site only rarely and superficially.

When assessing the importance of the attributes affecting their experience with online classified websites (See Exhibit 3), participants put particular emphasis on the elements that could represent the intrinsic value for the final user of every generic website, such as ease of use, privacy concerns and multimedia possibilities.

In addition, an important point is that the total network size appears to have a lower importance compared to the local one, which is represented by the number of listings per city and the number of listings per categories within that city.

8.3 Regression analysis

The objective of this part of the study was to evaluate, from the final user's point of view, the importance of a set of specific attributes that characterize classified websites in general.

From the set of attributes already defined, I deliberately chose to remove the variable age, since the majority of the sample is included in the 22 - 25 age segment. As a consequence, it was not possible to study this variable in a significant way.

For the purposes of the investigation, participants needed to report their frequency of usage of different online platforms (classified websites, specialized websites, auction websites) for the activities of buying and selling goods and job and apartment searching (See Exhibit 7 for the complete questionnaire).

I chose to remove the activity of buying and selling houses from the regression analysis, since the majority of the respondents indicated that they have never performed this activity online.

The dependent variable was calculated as the sum of the individual frequencies of usage of classified websites for the three activities.

Therefore, I have then assumed that a high resulting sum of the individual frequencies of usage for classified websites would correspond to a higher likelihood to choose classified websites over other online platforms.

Starting from the previously defined attributes, influencing the choice of a classified platform, I decided to run a factor analysis in order to reduce the number of items. This allows me to

run a regression analysis that is more coherent with the one defined by Chun and Hahn (2007).

Therefore, I conducted a factor analysis using a Varimax rotation.

In order to choose the optimal number of factors, I analyzed the inclination of the scree plot, the cumulative variance and the communalities, and came to the conclusion that a four-factor solution was the optimal one.

To interpret the four-factor solution I examined items with loadings greater than 0.3.

The nine items revealed four factors that were easy to interpret:

- Factor 1 (intrinsic features),
- Factor 2 (local network size),
- Factor 3 (usage depth) and
- Factor 4 (total network size).

Rotated Factor Solution Matrix

	Intrinsic Features	Local Network Size	Usage Depth	Total Network Size
Usage per month			0.844	
Listing per visit			0.783	
Number of cities				0.910
Listing per city		0.838		
Listing per category		0.877		
Ease of Use	0.762			
Trust	0.863			
Multimedia	0.499			
Marquee	0.753			

Factor 1 refers to the internal attributes of a website such as usability, privacy protection, multimedia options and the endorsement by other well-known websites.

Factor 2 can be defined as the local network size, as both listings per city and listings per category may be identified as local community related attributes.

Factor 3 could be described as the usage depth, since it includes the item usage per month and listing per visit.

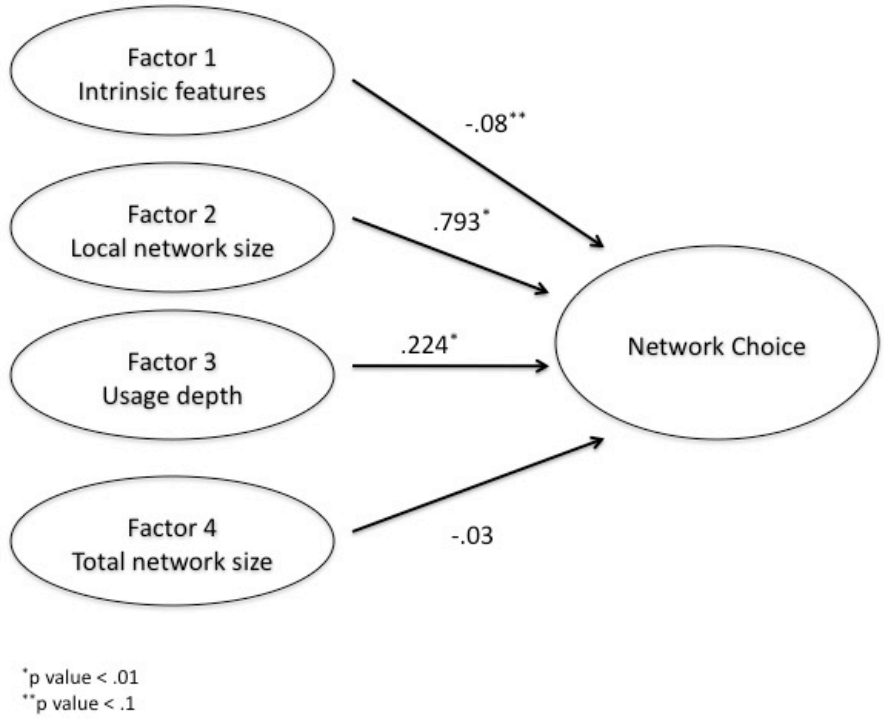
Factor 4 comprehends solely the item related to the number of cites available and can therefore be interpreted as total network size,

I have then conducted a regression analysis using the obtained factors as independent variables and the score for classified websites as the dependent one.

The parameter estimates and R^2 of the model are presented in the table below (See also Exhibit 4).

	Average usage Classified websites
	Model 1
Factors	
Intrinsic Features	-0.085*
Local Network Size	0.793***
Usage Depth	0.224***
Total Network Size	-0.033
R^2	0.687
Adjusted R^2	0.678
*p<.10; **p<.05; ***p<.01	

The estimated coefficients revealed to be highly significant for Factor 2 (local network size) and for Factor 3 (usage depth).



Consequently, local network size has relevant influence on the likelihood of choosing classified websites. In addition, usage depth is also relevant, confirming the previous findings that highlighted the profile of mostly heavy and deferring users for classified websites, versus a more homogeneous profile concerning the users for other online service categories. This means that, for classified websites, heavy users are the ones generating a high level of traffic, since their usage frequency is highly significant.

Despite being considered as to be significant in a context of online platforms, attributes such as the presence of multimedia and the ease of use (Factor 1) appear to have a limited influence in the choice of a given classified platform.

This happens because, when choosing to adopt a classified platform, users attach more importance in having a higher number of listings and cities available, rather than having a set of multimedia options or a user-friendlier platform.

Finally, by analyzing the results of the last part of the questionnaire, concerning the importance of selected attributes for the specific case of Bakeca, we can claim that users in Italy have not yet achieved a high level of familiarity with online classified ads. This is associated to the fact that this service is relatively new for the Italian marketplace, while in other countries this reality is already affirmed.

As a matter of fact, only a small percentage of users (30.5%) did use Bakeca for their online activities, and the performance of the website across the previously mentioned categories highlights a neutral evaluation of the website's main features. For the majority of the participants, the mean evaluation for the selected attributes was five (See Exhibit 5).

9. DISCUSSION

Thanks to the literature review, the case study and the empirical analysis this paper has developed several propositions concerning the dynamics of online classified websites. This section of the paper offers a brief discussion on how these propositions contributed in answering the three research questions.

1) What are the factors influencing the competitive dynamics of online two sided markets?

As demonstrated by Bakeca's case, two-sided networks differ from traditional models in a fundamental way: in a traditional value chain, revenues and costs for a given company are extracted from two different groups of agents in the market.
On the contrary, in two-sided networks, one side is subsidized despite the fact that the platform incurs in costs by serving both groups (Eisenmann, Parker, Alstyne, 2006).
The sustainability of e-marketplaces relies on network externality effects (Katz and Shapiro, 1986); as a consequence, the more firms join the marketplace, the more a firm's participation in an e-marketplace will become worthwhile.
Sustaining that the influence of network externalities on e-business adoption was a critical factor (Hsieh et al., 2006), it was important to evaluate the influence of network externalities in the choice of classified platforms; more particularly, results were tested on the base of the insights coming from the case study of Bakeca.it.
The results from the present study revealed that Bakeca could be seen as an example of a two-sided network. Bakeca is thus a platform that provides the infrastructure and rules, which facilitate group transactions and acts therefore as an intermediary.
Another relevant aspect emerging from my study was that the theory of multi-homing is confirmed.
For the specific case of apartment/house searching, the gap between specialized websites and classified websites is almost not existent. This confirms that most of the participants use the

two platforms jointly in order to perform the activity under investigation. The assumptions provided by Armstrong (2004) and Rochet and Tirole (2003) about multi-homing processes on Internet platforms are hence confirmed. Multi-homing affects both the price level and the pricing structure. The price level tends to be lower with multi-homing, since the availability of substitutes tends to put pressure on the two-sided firms to lower their prices (Evans, 2004). We can also observe this phenomenon in the case of Bakeca, since the platform does not, for now, apply any fee for the service of houses/apartments listings.

Bakeca was born as a free service for local communities. The entry strategy of the company was consequently based on acquiring a vast number of users, and thus by offering the service for free.

As highlighted by Caillaud and Julienne (2002), the best entry strategy for an Internet service provider is to obtain a critical mass of users on one side of the market by providing them with the service free of charge. Bakeca applied this principle: the advertisers were treated as a profit centre and the users as a loss leader.

2) What are the dynamics of electronic marketplaces in the Italian market in respect to more established realities?

The innovative part highlighted by the case study of Bakeca, compared to what was present for online platforms (in Italy) in former times, lies in three fundamental characteristics: local aspect, free use and simplicity. Bakeca, following the model of the American Craigslist.org, is focused on cities and not on categories. The idea behind this is the assumption that the user will first undertake his search per cities and then per categories.

However, there are a number of specific limitations with regards to the development of Bakeca's service, which are connected to the specificities of the Italian market.

For what regards the sector of innovations for Internet platforms, some fundamental limits exist. First, the infrastructures for the connectivity on the territory are still underdeveloped. As a result, there is an insufficient penetration of the accesses for broadband connections, in relation to the overall potential.

Another problem is linked to the absence of an adequate legislation concerning Internet-related businesses that causes a high level of uncertainty and risk for investments in Internet innovations.

On the other hand, these conditions of underdeveloped infrastructures and the absence of an adequate legislation can be regarded as an advantage for first mover businesses in the sector,

since Internet giants will not have a high interest to invest and localize their activities in Italy. Consequently, this gives time to local ventures to launch their independent initiatives, as it happened for the start-up of Bakeca. *

3) What are the central factors that influence customer adoption in two sided electronic classified marketplaces?

The analysis revealed that local network size was one of the primary aspects influencing the choice of a given classified platform.
The common understanding in the network externality literature, defending that total network size is the most powerful key for competitive advantage, is therefore not confirmed in this case.
Moreover and especially for Italy's case, having a more localized community for each given city is the winning formula, since, as confirmed by the results of the regression analysis, users give more weight to the local network size.
Another important characteristic highlighted by the case study is the simplicity of use of the platform; the website is indeed composed of three main pages: the home page of the city, the directory of the listings per category and the details of the listing. Moreover, to post a listing, it is not necessary to register or to enter a username or password: the posting mechanism is immediate and free.
This is particularly important since, as confirmed by the regression analysis, usage depth is the second key feature influencing the choice of an online classified platform. It is therefore extremely important to have a website, which is easy to navigate and user-friendly.
All the aspects mentioned above, and in particular the local focus, contributed to the strong differentiation of Bakeca's service compared to other e-commerce or auction websites.

10. MANAGERIAL IMPLICATIONS

The results from the last part of the questionnaire suggested that users had a neutral attitude towards Bakeca. The familiarity for this type of Internet service is still limited in the Italian marketplace, since the mean score for most of the attributes levelled five.

* Insights coming from the interview with Paolo Geymonat, managing director of Bakeca.

This suggests that Bakeca was not yet able to develop a strong association for at least part of the differentiating attributes that could be relevant to its target users.

As confirmed previously by the regression analysis, local network size seems to be the most important factor for the choice of online classified ads. Bakeca should therefore improve the score on this particular dimension by better promoting the development of the local aspect of its service. One of the possible ways to do so could be through an increase of local online marketing activities versus offline campaigns.

The online communication channel would be the most targeted one for the particular business of online classifieds and for the characteristics of the target customer of the service. As previously demonstrated, young and university users represent a market segment that performs most of its search activities online.

Bakeca should in this way complement its offline efforts with a focus on online activities.

As a final remark, it is important to highlight that, despite being a relatively recent phenomenon; classified websites' usage will grow in the following years. This was also confirmed by the participants' intentions, as more than 87% of the respondents declared they would continue to use classified services in the future.

11. LIMITATIONS

The present study demonstrates that local network size and usage depth are the two most important factors affecting the choice of a given classified platform. However, since the results were obtained from the target "users", the validity of this study is relative to only one side of the market.

To generalize the findings, investigations within the advertisers' side are also required.

An additional limitation could be the characteristic of the sample. Students were considered an appropriate cluster for the present study; yet a different group might produce different results.

In addition, since the majority of the sample included individuals aged 22-25, I deliberately decided not to take into account this variable for the regression analysis, despite acknowledging its potential relevance on a broader sample.

Finally, being the choice of the items for the factor analysis a personal elaboration, this might result in a biased view of the issue under investigation, even if the generation of the attributes in based on a broad literature review.

12. CONCLUSION

The objective of this study was to evaluate the specific case of classified websites a peculiar kind of two sided markets, through the analysis of one of the dominant players in the Italian online classified market, Bakeka.it

In order to carry out this evaluation, a deeper understanding of the dynamics of classified websites needed to be developed.

For the peculiarities that characterize this kind of markets, a thorough study of the existing contributions for two sided markets in the literature was necessary, in order to understand which models could be best applied to the case study.

Since Bakeca constitutes a relatively new player on the Italian market, I decided to conduct in-depth personal interviews with the central members of the company, in order to understand the strategic focus and future directions that the company intends to pursue.

Both the literature review and the insights coming from the interviews highlighted out that network externalities were a critical factor for the specific business of classified platforms. I therefore found it relevant to evaluate which were the main attributes influencing the choice of a given classified platform.

For the purposes of my analysis, an online survey was conducted to define the most important factors influencing the adoption of a classified website and to understand the profile of usage and preferences of the actors choosing the platform.

The results obtained from the 176 survey respondents revealed that there were two main patterns of usage for classified platforms: heavy users, who visit the website more often and browse it more deeply, and deferring users, who browse the website more superficially.

In addition, results revealed that local network size and usage depth were the two most important features influencing the choice of a classified platform.

Bakeca's strategy, consisting on focusing on the local aspect of this service, seems to be, according to the results extracted from the analysis, a sustainable strategy of business development for the future.

Since usage depth emerged as the second most important factor in the choice of classified websites, it is necessary to design specific online classified platforms in a way that renders them easy to navigate and user-friendly, in order to allow a high intensity of usage.

Furthermore, it is essential for the company to track heavy users and develop premium features aimed at achieving a higher loyalty within this segment.

When it comes to Bakeca's specific case, despite being a first mover on the Italian market, the company should devote growing attention to the factors pointed out in my analysis, since it has not yet developed a strong brand recognition.

Should Bakeca fail to do so, the consequences could be, in a growing competitive environment, an erosion of the competitive advantage that the company developed by being a first mover on the Italian market.

The case of Bakeca demonstrates that, in the current web-environment, market followers with smaller network sizes have, predominantly, a more sustainable competitive advantage than market leaders who have larger network sizes. A smaller network size allows followers such as Bakeca to tailor their offer to the local needs; while market leaders with a larger network lack the necessary flexibility to differentiate their offer.

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15. EXHIBITS

EXHIBIT 1: Correlation Matrix

Correlations

		Rent Class.	Rent Special
Rent Class.	Pearson Correlation	1.000	.355**

**. Correlation is significant at the 0.01 level (2-tailed).

EXHIBIT 2: Usage Frequency and Depth of Classified Websites

Statistics

		Monthly Usage	Listing per Visit
N	Valid	157	156
	Missing	19	20
Mean		4.20	8.82
Median		2.00	5.00
Mode		1	0
Std. Deviation		6.660	12.177
Variance		44.352	148.290
Skewness		3.650	3.652
Std. Error of Skewness		.194	.194
Kurtosis		17.431	20.905
Std. Error of Kurtosis		.385	.386
Sum		659	1376
Percentiles	25	1.00	2.00
	50	2.00	5.00
	75	5.00	10.00

EXHIBIT 3: Evaluation of the attributes influencing the choice of classified websites

Statistics

		Number of cities	Listing per city	Listing per category	Ease of Use
N	Valid	138	138	138	138
	Missing	38	38	38	38
Mean		6.29	7.40	6.62	8.24
Median		7.00	8.00	6.00	9.00
Mode		8	10	10	10
Std. Deviation		2.626	2.345	2.500	2.081
Variance		6.893	5.497	6.251	4.329
Skewness		-.463	-.643	-.228	-1.597
Std. Error of Skewness		.206	.206	.206	.206
Sum		868	1021	914	1137
Percentiles	25	5.00	5.00	5.00	7.00
	50	7.00	8.00	6.00	9.00
	75	8.00	10.00	9.00	10.00

		Imp. Privacy	Imp. Multimedia	Imp. Marquee
N	Valid	138	138	138
	Missing	38	38	38
Mean		7.78	8.22	7.12
Median		8.00	9.00	8.00
Mode		10	10	8
Std. Deviation		2.394	2.138	2.316
Variance		5.733	4.570	5.364
Skewness		-.943	-1.503	-.781
Std. Error of Skewness		.206	.206	.206
Sum		1074	1135	983
Percentiles	25	6.00	7.00	5.75
	50	8.00	9.00	8.00
	75	10.00	10.00	9.00

EXHIBIT 4: Main estimators for Factor Analysis

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.829[a]	.687	.678	3.858	.687	72.481	4	132	.000

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4315.451	4	1078.863	72.481	.000[a]
	Residual	1964.797	132	14.885		
	Total	6280.248	136			

a. Predictors: (Constant), REGR factor score 4 for analysis 1, REGR factor score 3 for analysis 1, REGR factor score 2 for analysis 1, REGR factor score 1 for analysis 1

b. Dependent Variable: Avg_USAge_Class

a. Predictors: (Constant), REGR factor score 4 for analysis 1, REGR factor score 3 for analysis 1, REGR factor score 2 for analysis 1, REGR factor score 1 for analysis 1

Model	Unstand. Coefficients		Stand. Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	14.496	.330		43.979	.000
REGR factor 1	-.579	.331	-.085	-1.750	.082
REGR factor 2	5.388	.331	.793	16.286	.000
REGR factor 3	1.522	.331	.224	4.601	.000
REGR factor 4	-.226	.331	-.033	-.683	.496

EXHIBIT 5: Evaluation of main features for Bakeca's website

Statistics

		Posting simplicity B	Website ease B	Variety B	Awareness B
N	Valid	75	75	75	75
	Missing	101	101	101	101
Mean		6.11	6.25	5.79	4.75
Median		6.00	6.00	6.00	5.00
Mode		5	5	5	5
Std. Deviation		2.334	2.273	2.164	2.296
Variance		5.448	5.165	4.684	5.273
Skewness		-.440	-.635	-.301	.086
Std. Error of Skewness		.277	.277	.277	.277
Sum		458	469	434	356
Percentiles	25	5.00	5.00	5.00	3.00
	50	6.00	6.00	6.00	5.00
	75	8.00	8.00	7.00	6.00

		Local Ntw Size B	Privacy B	Convenience B
N	Valid	75	74	75
	Missing	101	102	101
Mean		5.91	5.38	5.27
Median		6.00	5.00	5.00
Mode		5	5	5
Std. Deviation		2.378	2.298	2.309
Variance		5.653	5.280	5.333
Skewness		-.444	-.125	-.152
Std. Error of Skewness		.277	.279	.277
Sum		443	398	395
Percentiles	25	5.00	5.00	5.00
	50	6.00	5.00	5.00
	75	8.00	7.00	6.00

EXHIBIT 6: Questionnaire for Bakeca's team

USER

- How do you estimate the behavior of the typical user of Bakeca to be? Do you think that he/she uses also other types of platforms and classified services?
- Do you think that your user base is quite loyal to your platform and why?
- Do you use any web analytics application (for example Google analytics)? If yes, what kind of information do you have about your user profile? And in terms of usage?
- In the area of E-commerce and Internet platforms, trust issues are really important. How do you work for the purposes of this concept and especially are you carefully monitoring externalities that may affect your business (in particular negative externalities)?

COMPETITION

- What do you consider to be the added value of your services (classifieds) in respect to other competitors so that you can justify the future plan of payment of the classifieds for employment and real estate?
- How do you see the competition from traditional offline magazines and newspapers? Do you view them as direct competition?
- How do you judge the competition from online job-search services such as Monster? Do you intend to charge less than online job-search sites in the future for your services?
- Online pure players are the real competitors of Bakeca.it. In Italy, you estimate to have three main competitors: Kijiji, Vivastreet and Subito. However, all the three initiatives are foreign managed. But, it has been suggested that for the online local classified market, economies of scale related to international brand building are not effective. How do you intend to use the advantage that Bakeca is managed in Italy over its competitors?

REVENUES AND PRICING

- Do you intend to have other sources of revenue other than just classified services and advertising?
- Conceptually, the theory of two sided markets is related to the theories of network externalities and of multi product pricing. From the former, it borrows the notion that there are non-internalized externalities among end users ("competition in two sided markets", mimeo, 2004, University College, London.). If there are no membership externalities, such as

in Bakeca's case, the question is whether end users intensively use the platform rather then whether they join it. The focus on membership is associated with the existence of transaction-intensive end user cost. Why you do not consider the benefits of having memberships fees? You could maybe try to use the service "Mia Bakeca" for this purpose?

- Is the reason that you do not charge users the one that you find yourself to be competing with similar platforms (multi-sided inter-competition markets)?
- How do you cope with the problems of platform competition and multi-homing? Platform competition is particularly critical when speaking of price structures involved. For example, when users connect to multiple platforms, the elasticity of users demand for a given platform increases, due to their ability to switch to competing platforms. On the other hand, users multi-homing allows platforms to induce sellers to opt out of competing platforms. Platform competition thus increases downward pressure on prices on both sides of the market. What are the pricing strategies that you intend to use in the future in order to achieve "customer stickiness" to your website and not make them prefer competitor's websites?
- A market is two sided if the platform can affect the volume of transactions by charging more to one side of the market and reducing the price paid by the other side by an equal amount. Because pricing to one side is designed with an eye on externalities on the other side, standard pricing principles often do not apply. Platforms must perform the balancing act between the two sides along various policy dimensions and not only with respect to the price structure. They therefore often regulate the terms of the transactions between end users, screen members in non-price related ways and monitor intra-side competition. How do you cope with the problem of regulated transactions and setting different price levels?

OPERATIONS

- Please explain more carefully the modular structure of the elements in your system technology. In which way you can respond much quickly to changing market needs?

MARKETING AND COMMUNICATION

- The marketing activity of your business is based both on offline and online initiatives. For the nature of the online classifieds business, I believe that the most important activity regards the viral marketing, since it can encourage positive word of mouth and network externalities. Do you intend to promote your viral marketing campaigns on other sites rather than just Bakeca.it? (Especially social networks)
- How much of your advertising Budget is devoted to SEO and SEM purposes? Have you been thinking about affiliation marketing?
- Have you been thinking of introducing a Co- creation of advertising with the users (example Gmail videos)?
- Have you been thinking about developing a mobile version/application for Bakeca?

STRATEGIC OUTLOOK

- In your last Business Plan, you mention different future scenarios and projections of future evolvement of your business. The only possible options are to be acquired by bigger competitors. Did you take into consideration other options and solutions, such as leveraging the knowledge acquired through local communities in order to act as a Virtual Knowledge Broker or Infomediary?
- Since this is the beginning of such business in Italy, it is really important to build scale fast, because no leader exists now in Italy. Once the leader is established in the local market, the barriers to entry for others become almost insurmountable. This is a kind of business where the first few (or one) successful initiatives establish a significant and lasting lead over competitors. For this purpose, Bakeca needs to encourage strong network externalities so that users will be attracted to services where their needs are likely to be quickly matched and advertisers direct their spending on most popular sites.

  Bakeca finds itself to be in a good position since the online classified market in Italy is at its early stages with no clear dominant player, and this clearly leaves plenty of opportunities for Bakeca. What, in your opinion, are the strategic moves that Bakeca can pursue in this initial stages of development in order to pursue a competitive advantage over other players in the market?

EXHIBIT 7: Online survey

Bakeca it

Sanja Kon's Master Thesis

2. Personal Details

33%

***1. Age**

***2. Sex**

- Male
- Female

***3. Have you ever used internet for the following activities?**

	yes	no
Buy/sell things		
Buy/sell house or apartment		
Searched for/rented an apartment or room		
Searched for jobs		

Sanja Kon's Master Thesis

3. Internet usage

50%

✱1. How frequently do you use the following websites for the buying and selling activity of THINGS

	1 (Never)	2	3	4	5	6	7	8	9	10 (Very often)
Classified Websites (ex. Kijiji, Bakeca, Subito)										
Specialized Websites (ex. Amazon)										
Auction Websites (ex. Ebay)										

✱2. And to buy and sell HOUSES and APARTMENTS?

	1 (Never)	2	3	4	5	6	7	8	9	10 (Very often)
Classified Websites (ex. Kijiji, Bakeca, Subito)										
Specialized Websites (ex. Real estate agencies websites)										
Auction Websites (ex. Ebay)										

✱3. Instead, when you need to RENT a room or an apartment, which one do you use more often?

	1 (Never)	2	3	4	5	6	7	8	9	10 (Very often)
Classified Websites (ex. Kijiji, Bakeca,										

	1 (Never)	2	3	4	5	6	7	8	9	10 (Very often)
Subito) Specialized Websites (ex. Easystanza)										
Auction Websites (ex. Ebay)										

∗4. And finally, which of the following websites do you use more frequently for job search?

	1 (Never)	2	3	4	5	6	7	8	9	10 (Very often)
Classified Websites (ex. Kijiji, Bakeca, Subito)										
Specialized Websites (ex. Monster)										
Auction Websites (ex. Ebay)										

Bakeca.it

Sanja Kon's Master Thesis

4. Frequency of Usage

67%

∗1. How many times do you approximately use a classified website (ex. Kijiji, Bakeca, Subito) per month?

10

∗2. How many listings do you approximately check for each visit?

10

Sanja Kon's Master Thesis

5. Classified Websites

83%

***1. With specific regard to classified websites (ex. Kijiji, Bakeca, Subito), how important do you rate the following attributes?**

	1 (Not important)	2	3	4	5	6	7	8	9	10 (Very important)
Number of cities available										
Number of listings per city										
Number of listings per category (ex. housing, jobs)										
Ease of use										
Privacy protection of your sensitive data										
Videos/ Photos of the object of your interest										
Recommendations from well known websites										

***2. Have you ever used Bakeca.it?**

- Yes
- No

3. If YES, how do you rate the following attributes of the website?

	1 (Totally Disagree)	2	3	4	5	6	7	8	9	10 (Completely Agree)
Posting is simple and easy										
The website is easy to navigate										

	1 (Totally Disagree)	2	3	4	5	6	7	8	9	10 (Completely Agree)
On Bakeca I can find what I want	◯	◯	◯	◯	◯	◯	◯	◯	◯	◯
Bakeca is the first classified website that comes into my mind	◯	◯	◯	◯	◯	◯	◯	◯	◯	◯
I can find a lot of listings for my city	◯	◯	◯	◯	◯	◯	◯	◯	◯	◯
I think that Bakeca cares about my privacy	◯	◯	◯	◯	◯	◯	◯	◯	◯	◯
I think that I can save money by buying on Bakeca	◯	◯	◯	◯	◯	◯	◯	◯	◯	◯

∗4. Do you think you will use again a classified website (ex. Kijiji, Bakeca, Subito) service in the future?

◯ Yes

◯ No