

Taking flight

Jonathan Jackson



Former investment banker Matt Donazzan speaks with Jonathan Jackson about auction theory and how One Cent Flights is aiming to change public perception in relation to small bid auction sites.

Penny auction sites have had their fair share of detractors. Many of the criticisms leveled at these sites have merit; are they legitimate, are they merely online gambling dens and why do people have to lose their money if they don't actually win the sale item? They may also be addictive.

Quibids.com is one of the more successful penny auction sites, but they have reason to defend – this is a lucrative business model. Yet spokeswoman Jill Farrand says the company is transparent and bidders can apply the money they have spent to buy the product at retail value if they fail to win the auction. The catch is that customers must buy 'bid packages' before they commit to an auction. They can use the money in these packages for other auctions, but the more spent without success the more money they lose. And there is the potential to lose big depending on how many auctions you bid on.

With One Cent Flights Matt Donazzan runs a similarly modeled business, however some fundamental changes to the business strategy means that not only are the auctions fair, but nobody loses out if they lose the bidding war. One Cent Flights is not a penny auction site in the way we have come to know.

So how did One Cent Flights come about and what sets it apart?

Ever since he can remember Matt has "been mucking around in the startup space. I have always been pretty passionate about startups. Even when I was a little kid my parents told me stories about spending our holidays on a beach resort and me using the whole holiday to open coconuts and try to sell the stuff inside."

This translated into university years spent immersed in psychology, ecommerce and marketing, even though he says he is more a mathematics brain than marketing one. All this insight then led to the co-founding of his first business DayEight, a strategic marketing agency.

"We branded ourselves as generation Y consultants, so the idea was to take old school organisations and reconfigure them so that they would be able to attract younger generations in a meaningful way."



Matt sold his stake in that business in 2009. He was looking for another entrepreneurial project, but couldn't define his next idea, so on the advice of his parents he took a job with UBS as an investment banker. There he learnt about process, but he was still bitten by the tech bug and how to use technology in an interesting way. With the lack of time to work on any start-ups, he made the conscious decision to move out of corporate life and back into the entrepreneurial sphere. In 2013, he founded the Daily Maggot, a satirical news site focusing on AFL and justdress.me, a blogger management business. Meanwhile Matt had been dabbling in his auction theory since March 2012.

"I wrote down the One Cent business plan and registered the domain names. I set up Facebook and created a basic web design that I coded myself. I'm not a technical guy, nor a programmer, but I am diligent and I spent a lot of time creating my own pages. My cousin Elliot was running an auction business on eBay and we were very close, so I told him about the project and we started developing the idea from there."

One Cent Flights is the spawn of auction theory from a microeconomic perspective and a passion for niche verticals with specific demographics.

Matt started looking into the various daily deal sites. He was interested in the economic model.

"Daily deals are an interesting economic development, but as a whole the concept is too broad. They send out emails for restaurants, tyres, hair removal, which aren't necessarily targeted to me and those emails end up in spam. So we looked at a model that delivered specific verticals. For instance if you were interested in travel, we'd send travel offers. If you were interested in baby products, you would receive offers for those products. The whole idea is that you as an individual will have a couple of key product segments close to your heart and that will really overlap on a demographic basis."

Matt was leaning towards a type of daily deal model until he came upon the penny auction sites in the US.

"I had all these business plans working on niche daily deals, we were going to do a travel one, a wine one, hotels, cars and women's fashion. I had not looked at penny auctions before other than from an academic viewpoint. Then I saw this US site and thought 'this is what I studied at University'. I liked this business model. Then I thought 'Why are they doing it in this generic sense, they are making the same mistake that the group buying sites have made'. While it works, they hadn't gone to the next step. So we went into auctions instead of group buying and developed niche verticals."

Matt wanted to avoid the churn and burn mentality of the daily deal sites and create a business with a loyal clientele. Today much of the revenue earned by the One Cent model is from repeat custom. Customer service is paramount and the One Cent team holds their suppliers to account, so that the offering is always something that meets expectations.

"That doesn't mean that we don't have problems," Matt says. "We have historically changed partners, some who are really good but after a while have made mistakes or don't treat the customers well. The way we do it is we offer our suppliers an avenue to customers that's ongoing and they can also upsell the customers which is a really key thing. And we make sure the customers are treated well."

The first business model targeted flights, the next wines.

"You look at the two and think, 'I don't see how they are logically connected'. You would have thought we would have targeted flights and hotels. However it comes back to demographic. We wanted to build a database of eighteen to thirty five year old women. We conducted a lot of focus groups before we launched on what products those women

really like. Every time we looked at it, travel came up as one of the highest search terms and the highest spend per income in terms of relationships and families. Females have a larger control over the travel dollar versus any other demographic. Also the dollar value of the transactions is quite high, so there are a lot of reasons why travel is important.

“Why wines? We wanted to build a database for forty plus men. Again we focus-grouped and analysed what was going to be the most exciting thing for men. We looked at cars but to be honest, trying to sell a car is a big financial commitment and so wines became the second vertical. So again, choosing the group of individuals and understanding how we want to capture their attention was the focus. I think on a go forward basis we are certainly interested in more verticals and are in discussions with other parties, but for the moment we are focusing on wines and travel.”

And what of this controversial business model? There are similarities between sites such as Quibids, but there are also deliberate differences and this is where the market becomes more honest.

“We focus our concern to find repeat customers, we are not that interested in people that are going to have a look at the website and make a small purchase. We want people to come and purchase continuously. And we want to be transparent. If you go the Quibids landing page it doesn't actually explain how the auctions work, which in my opinion is essential to being involved. When you sign up you have to make a purchase, so if you want to be a participant in a Quibids auction you must get your credit card out of your pocket and spend money. That is an excellent way to get first purchases, however when I read forums and I get feedback from people who have used their site often people spend money and then they haven't quite squared their heads around what is going on.

“We take a very different approach, which is trying to let the customer come closer to the auctions. We want them to spend more time experiencing the business model, before we start asking if they would like to make a purchase. Quite specifically with Quibids you see a landing page and you type in a couple of details then pay \$70 and you're in. That's their flow. Our flow is you turn up – there is no landing page – and see the auctions being conducted. You can see the past auctions, you can see the current auctions and how it all works. Then if you choose to sign up, we provide you without question five free tokens. You don't need to spend money to actually participate. After those five free participations, then you do need to pay to continue to participate. The important difference is with the penny auction sites they pay and then participate, in our site they participate and then choose to pay.

“There were a couple of reasons why we did that. First of all I think it's really important for business in general. We are operating in Australia, which has a pretty secure consumer protection environment and you've got to be very mindful of keeping consumers completely informed. Secondly, I still think the only way to build a sustainable business is to not surprise consumers. You have to bring them in and let them know what the business does. I want people to understand why the auctions work like that. I want to explain why I think it's interesting. Once people are informed, we find that they then participate more. Which I think works for us.”



The business has developed in three stages. The first stage was to test the market and work towards 100,000 users. The business currently has close to 200,000 users. The second stage was to make and grow revenue. Consumers who signed up during launch are still spending thousands of dollars. The third stage was to improve infrastructure and build a secure and robust business. This has taken some tinkering and a website rebuild, but Matt is happy where the business stands and how it is moving forward. Asia is a future goal, but not quite yet.

One Cent Flights managed to raise some welcome capital last year, but the immediate mission before looking overseas is to create a solid Australian business.

“We don’t have the ability to go into Asia yet. If we wanted to build a two million user database in 12 to 24 months, which I believe is achievable, we will need at least another million dollars, maybe two million dollars to have a crack at it. However when it is the right time, we would do the exact same thing we did in Australia: same marketing channels, same marketing approach, same analytics, data analysis and methodology. We would use the same tools, but we would apply them to the larger market.”

Flights provide 80% of the business’s revenue, but Matt says the wine business is achieving what it set out to achieve and they will continue to invest.

For Matt this is an adventure that has combined all of his interests and while there are objectives, he is keeping an open mind about where it may head.

“Who knows we might sit here in two years’ time and we have two million users and say ‘hey, well actually ten million doesn’t look that high now. I am a very methodical, analytical person and so although I’m excited about the opportunities, I don’t want to get too carried away. I know we can get to two million users. Beyond two million there are a lot of new questions that come up including how to deal with those numbers.”

For now the strategy is working. One cent Flights offers a point of difference from those they are compared to by offering a premium product. Matt acknowledges there are similarities between his business and the penny auction sites, but One Cent Flights is not apt to cut corners; they comply with regulations, they make sure that their product offering is above board and consumer-centric and they ensure that their suppliers are representative of the values the company wants to project. Everything is designed so that the consumer is not misled in any way. And that is why the model has been so successful. There is transparency that will hold through the growth of the business into different models and perhaps even different regions.

<http://www.businessfirstmagazine.com.au/penny-wise-sites/1146/>