Lessons from Prediction Market Organizers and Operators

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Company Background:

- Began developing prediction markets in 1993
- Principal provider of prediction market software and related services
- Working with organizations of all sizes to solve a wide-ranging set of business problems.
Prediction Market Applications - Some key examples

- **Forecasting**: Sales revenue, audience measurement, risk management, consumer demand, project management, product launches, regulatory approval

- **Decision-making**: Idea management, resource allocation, market research, product development, advertising ROI, and corporate governance
Questions can be asked in a variety of ways:

- **Binary**: Will the project finish on time?

- **Linear**: How many units will we ship in Q108?

- **Conditional**: Would our margins be better if we selected an alternate vendor?
## Traditional Forecasting vs. Prediction Markets

<table>
<thead>
<tr>
<th></th>
<th>Traditional Model</th>
<th>Prediction Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Who participates?</strong></td>
<td>One or a small group of people who only have limited information sources</td>
<td>Lots of people from all aspects of the company</td>
</tr>
<tr>
<td><strong>How often is the data updated?</strong></td>
<td>Monthly - data becomes stale quickly</td>
<td>24 Hrs / 7 days (Add new questions quickly)</td>
</tr>
<tr>
<td><strong>Accuracy</strong></td>
<td>Depends on LUCK</td>
<td>Great!</td>
</tr>
<tr>
<td><strong>Excitement</strong></td>
<td>Boring - backed by complicated model</td>
<td>Fun and Exciting! – stock trading platform with incentives!</td>
</tr>
</tbody>
</table>
• Approached Consensus Point with a database of over 8,500 ideas
• Using an innovative voting system, users select the stocks that are added to the market
• Participants trade on the viability of the ideas
• The top performing ideas are developed
Large Computer Manufacturer

- Used by employees at all levels to predict consumer demand, product ship dates, and a variety of other events.

**Examples:**

- How much of each product should we build?
- Will the addition of feature “XYZ” lead to stronger sales in the telecom industry?
- Will this new vendor relationship deliver a positive ROI?
Items to consider when developing enterprise prediction markets...
Content is King

• Ask questions that people want to answer
• “Prime the pump” and then let the market participants have a say about what gets traded
• Balance the list of questions with short, medium, and long time horizons.
• Be sure that proper vetting is done before adding new questions to the market.
• Contract details and payoff criteria should be plainly stated and unambiguous.
Provide a Compelling Incentive Structure

• Can be real or play currency
• Payoff can be anything that the traders deem valuable: cash, increased status, prizes, project funding, perks, etc. Emphasize the reputation and recognition aspects.
• If tangible prizes are offered, consider the number of participants.
• Most importantly: be explicit in communicating how the traders will be compensated for their participation.
Communication is Crucial

• At the least, traders should be communicated with on a weekly basis. More often is better.
• Provide a means for them to connect and even collaborate with each other through the use of comment systems, blogs, and wikis.
• Expose the market data in other places, like the company Intranet, to draw people in more frequently.
Provide an Intuitive Interface

• Collect some data and spend the time to learn about the audience.
• In the majority of the markets we operate, nearly 80% of the participants are novices - little to no experience with markets and how they work.
• If explained properly, a market metaphor is generally a good way to go. Otherwise, explore other alternatives.
• Interface should be flexible to fit the audience.
Interface Example:

Enter Trade

Trading Interface: Simple | Standard | Advanced

Stock Name: Hiring new CEO increases stock 20% in 1 years
Current Forecast: 37.75%
Expiration Date: 2007/12/31

Do you believe this outcome is likely?

Yes » No »
Interface Example:

**Enter Trade (Step 2)**

Trading Interface:  Simple  |  Standard  |  Advanced  |

Stock Name: Hiring new CEO increases stock 20% in 1 year
Current Forecast: 37.75%
You Own: $0
Available Cash: $889134.65

How much would you like to buy?

Cash:  

Submit  Cancel
Interface Example:

Enter Trade

Trading Interface: Simple | Standard | Advanced

Stock Name: Hiring new CEO increases stock 20% in 1 years
Symbol: CEOHIRE
Last Trade Price: $37.75
Stock Expiry Date: 2007/12/31
Your holdings | Value: 0 | $0.00
Available Cash: $889,134.65
Trade Type: 
- Buy
- Sell
Trade: Shares
Quantity:

Submit Trade » Cancel
Interface Example:

Enter Trade

Trading interface: Simple | Standard | Advanced

Stock Name: Hiring new CEO increases stock 20% in 1
Symbol: CEOHIRE
Last Trade Price: $37.75
Stock Expiry Date: 2007/12/31
Your holdings |
Value: 0 | $0.00
Available Cash: $889,134.65
Trade Type: □ Buy □ Sell
Quantity: 100
Price: 34.3

Submit Trade » Cancel

Current Buy Orders

<table>
<thead>
<tr>
<th>Quantity</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>36.59</td>
</tr>
<tr>
<td>100</td>
<td>35.43</td>
</tr>
<tr>
<td>100</td>
<td>34.30</td>
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<tr>
<td>100</td>
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<td>100</td>
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<tr>
<td>100</td>
<td>27.89</td>
</tr>
<tr>
<td>100</td>
<td>26.89</td>
</tr>
</tbody>
</table>

Orders in green are yours.

Current Sell Orders

<table>
<thead>
<tr>
<th>Quantity</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>37.75</td>
</tr>
<tr>
<td>100</td>
<td>38.94</td>
</tr>
</tbody>
</table>
Questions & Answers

Interested in market data for your research? Please come talk to us.