CONSENSUS POINT, INC.

Lessons from Prediction Market Organizers and Operators

David Perry, President
615-397-3898
dperry@consensuspoint.com

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 of 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

	Traditional Model	Prediction Markets
Who participates?	One or a small group of people who only have limited information sources	Lots of people from all aspects of the company
How often is the data updated?	Monthly - data becomes stale quickly	24 Hrs / 7 days (Add new questions quickly)
Accuracy	Depends on LUCK	Great!
Excitement	Boring - backed by complicated model	Fun and Exciting! – stock trading platform with incentives!

- 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?

CONSENSUS POINT

Items to consider when developing enterprise prediction markets…

CONSENSUS POINT

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.

CONSENSUS POINT

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.

CONSENSUS POINT

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.

CONSENSUS POINT

Interface Example:

Interface Example:

Interface Example:

Hello, kittlitz (**Sign Out**) | **Portfolio**

Search

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**

CONSENSUS POINT

Interface Example:

Questions & Answers

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