

Chapter 11

Auctions

Learning Objectives

Upon completion of this chapter, you will be able to:

1. Define the various types of auctions and list their characteristics.
2. Describe the processes of conducting forward and reverse auctions.
3. Describe the benefits and limitations of auctions.
4. Describe some unique auction models.
5. Describe the various services that support auctions.
6. Describe the hazards of e-auction fraud and discuss possible countermeasures.
7. Describe bartering and negotiating.
8. Describe auction deployment and implementation issues.
9. Analyze future directions of mobile auctions.

Content

eBay—The World’s Largest Auction Site

- 11.1 Fundamentals of Dynamic Pricing and Auctions
- 11.2 Benefits, Limitations, and Strategic Uses of Auctions
- 11.3 The “Name-Your-Own-Price” C2B Model
- 11.4 The Auction Process and Software Support
- 11.5 Auctions on Private Networks
- 11.6 Double Auctions, Bundle Trading, and Pricing Issues
- 11.7 Auction Fraud and Its Prevention
- 11.8 Bartering and Negotiating Online
- 11.9 Issues in Auction Implementation
- 11.10 Mobile Auctions and the Future of Auctions

Managerial Issues

Real World Case: FreeMarkets

Answers to Pause/Break Section Review Questions

Section 11.1 Review Questions

1. *List the four categories of auctions.*
 - One buyer, one seller
 - One seller, many buyers
 - One buyer, many sellers
 - Many buyers, many sellers
2. *List the major auction models available to one seller.*

- Negotiation
- Bartering
- Bargining
- Forward auction

3. *List the auction models available to one buyer.*

- Negotiation
- Bartering
- Bargining
- Reverse auction
- RFQ
- Tendering

Section 11.2 Review Questions

1. *List the major benefits of auctions to buyers.*

- Unique items
- Chance to pay less
- Entertainment
- Anonymity
- Convenience

2. *List the major benefits of auctions to sellers.*

- Increased revenue
- Optimal price setting
- Removal of intermediaries
- Better customer relationships
- Liquidation
- Lower transaction cost
- Lower administration cost

3. *List the benefits of auctions to auctioneers.*

- Higher repeat purchases
- Stickier Web site
- Expansion of the auction business

4. *List the limitations of auctions.*

- Possibility of fraud
- Limited participation
- Security

- Long cycle time
- Monitoring time
- Equipment for buyers
- Order fulfillment costs

Section 11.3 Review Questions

1. *What is the logic behind “name-your-own-price” model?*

It attempts to meet supply and demand while eliminating price shopping.

2. *Describe Priceline’s business model.*

The company matches bids for services to prices that merchants are willing to accept. Priceline takes a commission on each sale.

3. *How does Priceline.com match supply and demand?*

Supply and demand are met by matching a customer’s named price (demand) to the price a merchant is willing to accept (supply).

4. *Enter **priceline.com** and try to book a flight. Comment on your experience.*

Student responses will vary.

Section 11.4 Review Questions

1. *List the activities of phase 1. What software tools or agents are available to support these activities?*

- Find when and where it will be auctioned
- Auction aggregators and notification
- Browse categories
- Searching

2. *List the activities of phase 2. What software tools or agents are available to support these activities?*

- Registration and profiles
- Listing and promoting
- Pricing

3. *List the activities of phase 3. What software tools or agents are available to support these activities?*

- Bid watching and multiple bids
- Sniping
- Proxy bids

4. *List the activities of phase 4. What software tools or agents are available to support these activities?*

- Post-auction notification
- User communication
- Feedback and rating
- Invoicing and billing
- Payment
- Shipping

Section 11.5 Review Questions

1. *Describe pig auctions in Singapore.*

A regular auction is conducted over a private network with the animals being centrally located.

2. *Describe CALM.*

ComputerAided Livestock Marketing (CALM) is an online system for trading cattle and sheep (forward auction) with the animals not being centrally located.

Section 11.6 Review Questions

1. *Describe double auction operations and pricing.*

In a double auction, multiple buyers and sellers may be making bids and offers simultaneously. The prices offered and asked change dynamically.

2. *What is bundle trading?*

The selling of several related products and/or services together.

3. *Discuss the conditions under which prices in online auctions are higher or lower than prices in physical auctions.*

Prices may be higher for unique items, or for general item (“winner’s curse”). Prices may be lower with liquidations or under attended auctions.

Section 11.7 Review Questions

1. *What types of fraud can be perpetrated by sellers?*
 - Bid shielding
 - Shilling
 - Deceptive description/photo
 - Improper grading
 - Selling reproductions
 - High shipping and handling
2. *What types of fraud can be perpetrated by buyers?*
 - Failure to pay
 - Loss and damage claims
 - Switch and return
3. *What kind of protections exist for sellers?*
 - User identity verification
 - Authentication
 - Feedback
 - Insurance
 - Nonpayment punishment
 - Verification
4. *What kind of protections exist for buyers?.*
 - User identity verification
 - Authentication
 - Grading services
 - Feedback
 - Insurance
 - Escrow
 - Inspection
 - Verification

Section 11.8 Review Questions

1. *What are the major reasons for e-bartering?*

It eases the difficulty in finding matches in traditional bartering.

2. *List the factors that may facilitate price negotiation.*

- Intelligent agents
- IT systems and services for bartering
- Bundling and customization

3. *Discuss the benefits of electronic negotiation.*

The major benefits are:

- Price is determined by the market
- Intelligent agents can conduct the majority of the negotiation

4. *What are the five steps of online negotiations?*

- Search
- Selection
- Negotiation
- Continued selection and negotiation
- Transaction completion

Sections 11.9 Review Questions

1. *What are the reasons for using auction intermediaries?*

Intermediaries assist in the buying and selling processes; they also help assure an audience for the auction.

2. *What types of intermediaries exist?*

- General sites
- Specialized site
- B2B oriented sites

3. *List some of the necessary auction rules.*

- Bidding rules
- Clearing rules
- Information revelation rules

4. *List major strategic issues in conducting B2B auctions.*

- Which items
- What type of auction
- In-house or with an intermediary
- How long
- Initial price

- How to accept a bid
- Increments
- Information to disclose

Section 11.10 Review Questions

1. *Describe the benefits of wireless auctions.*

- Convenience and ubiquity
- Privacy
- Simpler and faster

2. *Describe the limitations of wireless auctions.*

- Visual quality
- Memory capacity
- Security

3. *Describe the future of global auctions.*

More companies are increasing their reach globally, but will face all the issues of global sales.

4. *Describe auctioning of art on the Internet.*

Some auction houses allow bidding online for art through their own systems or partners such as eBay.

5. *Why are strategic alliances used in auctions?*

They decrease the difficulties and costs of intermediaries.

Answers to EC Application Case Questions

EC Application Case 11.1: Reverse Auctions for Small Movers at DM & S

1. *Why is it easy, from a technology point of view, to build an inexpensive auction site?*

The technology needed is standardized and readily available.

2. *What are some of the potential differences in operating such a site?*

It requires the coordination of many contractors (truckers) and customers.

3. *Can you think of similar applications for a small company in other industries?*

Student answers will vary.

4. *Compare **imove.com** to **dickerabid.com**. How are they similar? How do they differ?*

dickerabid.com is currently unavailable.

Imove.com offers a wide variety of services to people who are relocating

EC Application Case 11.2: Online Grape Auction – Where Tradition Meets Technology

1. *What drives auctions in the winery exchange?*

The exchange helps establish fair prices while reducing costs.

2. *Enter **wineryexchange.com** and describe any auction-activities.*

Student reports will vary.

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Answers to Discussion Questions

1. *Discuss the advantages of dynamic pricing over fixed pricing. What are the potential disadvantages?*

Benefits of dynamic pricing to sellers include:

- Increased revenues by broadening customer base and shortening cycle time. With e-auctions, sellers can reach the most interested buyers in the most efficient way and sell at a price equal to buyer valuation of the product. This eliminates the need to predict demand and the risk of pricing items too high or too low.
- Optimal price setting. Sellers can make use of the information collected about price sensitivity to set prices in other fixed-price markets.
- Disintermediation. Sellers can gain more customer dollars by offering items directly, rather than going through an expensive intermediary or by using an expensive physical auction.
- Better customer relationships. Buyers and sellers have more chances and time to interact with each other, thus creating a sense of community and loyalty.
- Liquidation. Sellers can liquidate large quantities of obsolete items very quickly.

2. *The “name-your-own-price” model is considered to be a reverse auction. However, there is no RFQ or consecutive bidding, so why is it called an auction? Is it an auction at all?*

Like reverse auctions, the “name-your-own-price” model has one buyer and many potential sellers. The price the buyer is willing to accept works like an RFQ.

3. *Find some material on why individuals like C2C auctions so much. Write a report.*

There are many interesting theories. One theory suggests that online auctions are similar to gambling and people participate in order to “win.”

4. *Compare the “name-your-own-price” and RFQ approaches. Under what circumstances is each advantageous?*

The main drawback to the “name-your-own-price” model is that typically the buyer must be somewhat flexible in the goods or services received. For example, on Priceline.com the buyer cannot choose the airline or even the exact time of a flight. In an RFQ system, the buyer has control over the exact goods and services required.

5. *Identify three fraud practices in which a seller might engage. How can buyers protect themselves?*

Seller fraud practices include: shilling, fake photos and misleading descriptions, improper grading, selling reproductions, high shipping costs, and failure to ship. Buyers can protect themselves in the following ways: use authentication services, use grading services, check the feedback forum, insurance policies, escrow services, appraisal services, and verification.

6. *Identify three fraud practices in which a buyer might engage. How can sellers protect themselves?*

Buyer fraud practices include: bid shielding, loss and damage claims, and switch and return. Sellers can protect themselves in the following ways: user verification, feedback forum, escrow services, and non-payment punishment.

7. *It is said that Manheim Auction is trying to sell more online without cannibalizing its core business. Discuss this situation.*

Manheim Auction needed to move online in order to counter competition in its main business, used automobile auctions. The company needs to move carefully so it does not alienate its off-line business. The complete Manheim Auctions case can be found at <http://www.terry.uga.edu/~rwatson/strategy/mol/mol.html>.

8. *Discuss the need for software agents in auctions. Start by analyzing proxy bidding and auction aggregators.*

In general, software agents assist participants in auctions by automating some of the key aspects of the process. For example, agents can find products available and negotiate the price. Proxy bidding uses a software system to place bids on behalf of the buyer. The

buyer determines his or her maximum bid and places the first bid manually. The proxy system will then increase the bid based on future bids by others until the auction ends or the maximum bid is reached. Auction aggregators use intelligent agents to find and track auctions on multiple auction sites. However, this practice is controversial and large auction sites, such as eBay, will not allow agents on their site.

9. *Discuss the role of auction aggregators.*

These firms attempt to display all auctions for particular products offered on several auction sites. This is a service to buyers and is usually using an advertising revenue model.

10. *It is said that individuals prefer an English auction whereas corporations prefer a Dutch one. Speculate on the reasons for this.*

Student responses will vary. It may be easier for individuals to concentrate a single item while businesses may want multiples.

11. *Relate consumer trust to auctions.*

Trust is required when making any online purchase. C2C auctions make this difficult, with trust being invested in the auction site more than the individual buyer or seller.

Internet Exercises

(Note: URLs may change over time; please check the Internet Exercises on the Turban Web site for possible updates: www.prenhall.com/turban.)

1. *Enter eBay's professional auctions (elance.com). Post a project and see how professionals will bid on this work. Summarize your experience.*

Student reports will vary.

2. *Enter dellauction.com and click on "site terms." Examine the policies, security and encryption statement, privacy protection statement, escrow services, payment options, and other features. Register (for free) and then bid on a computer of interest to you. If you are not interested, bid very low, so that you will not get it.*

Alternatively, try to sell a computer. If you do not have one to sell, place an asking price so high that you will not get any bids. Read the FAQs. Which of the following auction mechanisms are used on the Dell site: English, Dutch (declining), reverse, etc.

Write a report on your experiences and describe all the features available at this site. (Note: If you are outside the United States, use an auction site accessible to you.)

The site offers English and Dutch auctions. It also supports reserve auctions and has something called quick auction. In a quick auction, the first bid to meet the reserve price wins. Reverse auctions are not used since the site runs on a one seller, many buyer model.

3. Visit **ebay.com** and examine all the quality assurance measures available either for a fee or for free. Prepare a list.

The primary quality assurance measures available on eBay include: a fraud prevention division, insurance, feedback forums, escrow, a preferred provider program, identification verification, an item authentication service, and a rights ownership program. In addition, eBay has policies and procedures that help assure quality.

4. Visit **vendio.com** and report on the various services offered at the site. What are the site's revenue models?

This site provides tools and services for online auctions. They generate revenue by charging customers for their services.

5. Enter **bidfind.com** and report on the various services provided. What is the site's revenue model?

BidFind.com is a dynamic pricing aggregator. It collects data from multiple dynamic pricing sites using a software agent. It uses an advertising revenue model.

6. Enter **ebay.com** and investigate the use of "anywhere wireless." Review the wireless devices and find out how they work.

The site is designed to be viewed on a wireless device. If you or a student has a wireless device capable of viewing the site it can be used to start a discussion about how easy or difficult it is to use as compared with a regular computer.

7. Enter **imandi.com** and review the process by which buyers can send RFQs to merchants of their choice. Also, evaluate the services provided in the areas of marketing, staffing, and travel. Write a report.

At imandi.com the buyer completes an online RFQ for an item or service. The site helps the buyer complete the RFQ and suggests vendors who can fill it. The buyer can choose a vendor or send the RFQ out for additional quotes. Vendors then contact the buyer directly to complete the process.

8. Examine the auction process used by **office.com**. Review its reverse auction arrangement with **bigbuyer.com**. Write a report.

It appears that Office.com no longer supports auctions. BigBuyer.com specializes in Internet domain name auctions.

9. Enter **escrow.com** and view the tutorial on how escrow services work for both buyers and sellers in electronic commerce.

Escrow.com is now Tradenable.com. According to the site, “for sellers, Tradenable's escrow service makes it easy to accept a variety of payment methods and allows you to accept credit cards without having to open a merchant account. Credit card payments are accepted in U.S. dollars, from any place in the world... Plus, Tradenable collects funds beforehand so you are guaranteed that funds are available for payment prior to shipping. In addition, the escrow service allows you to track a transaction every step of the way, so you can provide buyers a quality shopping environment that is as safe as possible. Finally, using Tradenable's transaction settlement services indicates to buyers that you believe in your products and are committed to delivering top-quality service. For buyers, Tradenable couldn't be easier to use and is a great way to ensure you get what you expected. Simply click on the Tradenable icon on a merchant's site, or go to the Tradenable site, register and initiate the transaction.”

10. Enter **bidxs.com** and find historical prices on an item of your choice. How may this information be of help to you as a seller? As a buyer?

Note, the site requires users to enter a valid e-mail address before they gain access to the search engine.

11. Enter **priceline.com** and name a price from where you live to a place you would like to visit. Go through the process without actually buying the ticket (do not give your credit card number). Summarize your experience.

Student reports will vary.

12. Enter **respond.com** and send a request for a product or a service. Once you receive replies, select the best deal. You have no obligation to buy. Write a short report on your experience.

Students should also compare this method to forward auctions, online catalogs, and traditional stores.

13. Enter **icollector.com** and review the process used to auction art. Find support services, such as currency conversion and shipping. Take the tour of the site. Prepare a report on online buying as a collector.

The site has a long list of services including: appraisal, a pricing guide, a catalog archive, and insurance. Tools include: shipping cost, currency conversion, and insurance.

14. Enter **ubid.com** and examine the “auction exchange.” What is unique about it? Compare this auction with those conducted on **eBay.com**. What are the major differences between the auctions on the two sites?

Note, Ubid.com's consumer exchange is a C2C auction that operates in a manner similar to eBay.com.

15. Enter **autoparts.com** and describe how auctions are being conducted there.

Student reports will vary.

Team Assignments and Role Playing

1. Each team is assigned to an auction method (English, Dutch, etc.). Each team should convince a (hypothetical) company that wants to liquidate items that their method is the best. Items to be liquidated:
 - a. Five IBM top-of-the-line mainframe systems valued at about \$500,000 each
 - b. 750 PCs valued at about \$1,000 each
 - c. A real estate property valued at about \$10 million
 Present arguments for which auction method should be used with each item.

Student responses will vary.

2. Assign teams to major third-party auction sites from your country and from two other countries. Each team should present the major functionalities of the sites and the fraud protection measures they use. Convince a user that your site is the best.

Student responses will vary.

Answers to End-of-Chapter Real-World Case Questions: FreeMarkets

1. Enter **freemarkets.com** and explore the current activities of the company. Prepare a report of what FreeMarkets offers to its customers.

The firm provides a wide variety of auction style services. They provide auction services for wide variety of different customers and needs.

2. Look at six customer success stories (three for sourcing and three for supplying and asset recovery) at the company's Web site. What common elements can you find?

Student responses will vary based on the companies selected.

3. Identify additional services provided by the company to support procurement (sourcing).

Student responses will vary.

4. *If you work in a business, register with **freemarkets.com** and examine the process as a buyer and as a seller.*

Student responses will vary. Students will find that the process for registering a buyer and as a seller is generally fairly simple. Sellers need to provide a greater amount of information.

5. *Compare the use of **freemarkets.com** with the option of building your own auction site.*

Student responses will vary. Using a third-party provider would allow the company to begin auction sales more quickly, without the need to develop or implement another system. Companies may lose flexibility in the system itself when using a third party.

6. *How does surplus-asset recovery become more efficient with FreeMarkets?*

The firm allows companies to have access to a wide range of potential purchasers that may be interested in purchasing surplus assets. Because the auction is global, there's a better chance that assets will be sold at a market price to an interested buyer. This is better than the odds of selling at the market price to an interested buyer in a company's limited geographic region.

7. *Compare FreeMarkets auctions with those conducted on eBay.*

FreeMarkets specializes in business auctions whereas eBay specializes in individual auctions.

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