

Chapter 10

E-Auctions



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Learning Objectives



1. Define the various types of e-auctions and list their characteristics.
2. Describe the processes involved in conducting forward and reverse e-auctions.
3. Describe the benefits and limitations of e-auctions.
4. Describe some unique e-auction models.

Learning Objectives



5. Describe the various services that support e-auctions.
6. Describe the hazards of e-auction fraud and discuss possible countermeasures.
7. Describe bartering and negotiating.
8. Describe e-auction deployment and implementation issues.
9. Analyze future directions of mobile e-auctions.

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Fundamentals of Dynamic Pricing and E-Auctions



auction

Market mechanism by which buyers make bids and sellers place offers; characterized by the competitive and dynamic nature by which the final price is reached

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electronic auctions (e-auctions)

Auctions conducted online

dynamic pricing

Prices that are determined based on supply and demand relationships at any given time

Exhibit 10.1 Types of Dynamic Pricing



Buyers	One	Negotiation, Bartering, Bargaining	Reverse auctions, RFQ, Tendering
	Many	Forward (regular) auctions	Dynamic exchanges
		One	Many
		Sellers	

Fundamentals of Dynamic Pricing and E-Auctions



- One Buyer, One Seller
 - Popular in B2B
 - Each party can use negotiation, bargaining, or bartering
 - The resulting price will be determined by:
 - Bargaining power
 - Supply and demand in the item's market
 - Business-environment factors

Fundamentals of Dynamic Pricing and E-Auctions



- One Seller, Many Potential Buyers

forward auction

An auction in which a seller offers a product to many potential buyers

sealed-bid auction

Auction in which each bidder bids only once; a silent auction, in which bidders do not know who is placing bids or what the prices are

Vickrey auction

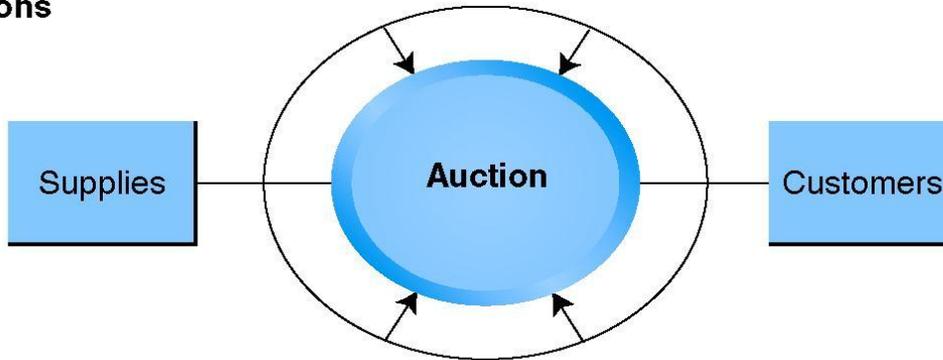
An auction in which the highest bidder wins but pays only the second-highest bid

Exhibit 10.2 Types of Forward Auctions



Liquidation Auctions

Seek first to maximize existing channels and reduce inventory before using auction

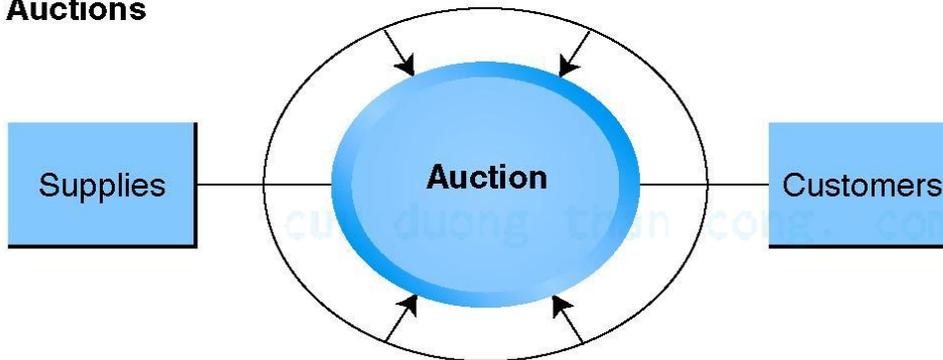


Seek lowest price on widely available goods and services

Disincentives to use auction shrink supply over time

Market Efficiency Auctions

Prefer market format that maximizes visibility with potential buyers



Seek access to unique/rare products or services

Incentives to use auction increase supply over time

Fundamentals of Dynamic Pricing and E-Auctions



- One Buyer, Many Potential Sellers

reverse auction

Auction in which the buyer places an item for bid (*tender*) on a request for quote (RFQ) system, potential suppliers bid on the job, with the price reducing sequentially, and the lowest bid wins; used mainly in B2B and G2B e-commerce

Fundamentals of Dynamic Pricing and E-Auctions



- One Buyer, Many Potential Sellers
 - B2B Reverse Auctions
 - C2C Reverse Auctions
 - “Name-Your-Own-Price” Model

“name-your-own-price” model

Auction model in which would-be buyers specify the price (and other terms) they are willing to pay to any willing seller; a C2B model, pioneered by Priceline.com

Fundamentals of Dynamic Pricing and E-Auctions



- Many Sellers, Many Buyers
 - Buyers and their bidding prices are matched with sellers and their asking prices based on the quantities on both sides and the dynamic interaction between the buyers and sellers

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Benefits, Limitations, and Strategic Uses of E-Auctions



- Benefits of E-Auctions
 - Benefits to Sellers
 - Increased revenues
 - Optimal price setting
 - Removal of expensive intermediaries
 - Better customer relationships
 - Liquidation
 - Lower transaction costs
 - Lower administrative costs

Benefits, Limitations, and Strategic Uses of E-Auctions



- Benefits of E-Auctions
 - Benefits of E-Auctions to Buyers
 - Opportunities to find unique items and collectibles
 - Lower prices
 - Entertainment
 - Anonymity
 - Convenience

Benefits, Limitations, and Strategic Uses of E-Auctions



- Benefits of E-Auctions
 - Benefits to E-Auctioneers
 - Higher repeat purchases
 - A stickier Web site
 - Expansion of the auction business

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Benefits, Limitations, and Strategic Uses of E-Auctions



- Limitations of E-Auctions
 - Possibility of fraud
 - Limited participation
 - Security
 - Auction software
 - Long cycle time
 - Monitoring time
 - Equipment for buyers
 - Order fulfillment costs

Benefits, Limitations, and Strategic Uses of E-Auctions



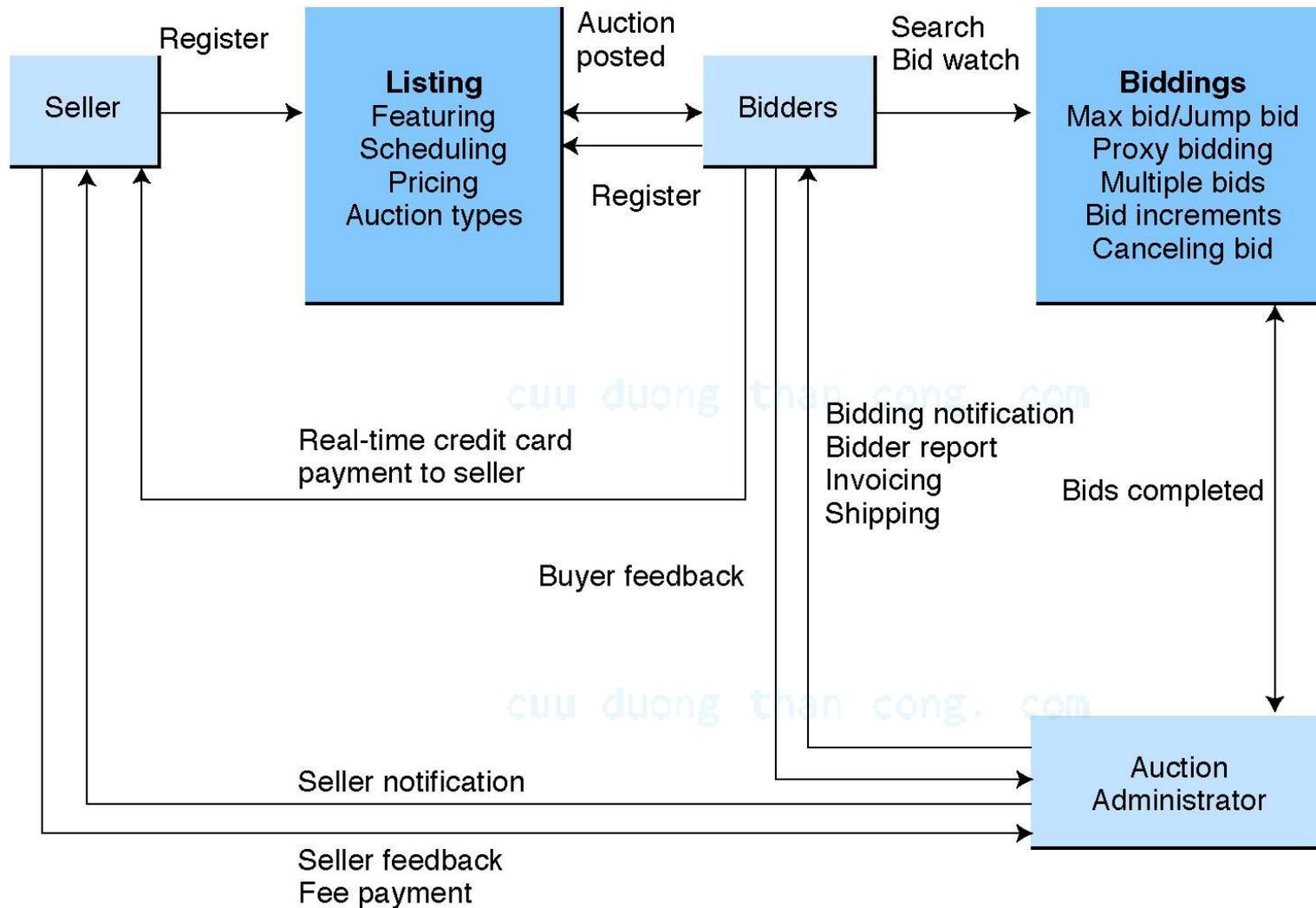
- Strategic Uses of Auctions and Pricing Mechanisms
 - Through dynamic pricing, buyers and sellers are able to adjust pricing strategies and optimize product inventory levels very quickly
 - Suppliers can quickly flush excess inventory and liquidate idle assets
 - Buyers may gather the power to procure goods and services at the prices they desire

The “Name-Your-Own-Price” C2B Model



- Enables consumers to achieve significant savings by naming their own price for goods and services
- Same concept as C2B reverse auction, in which vendors bid on a job by submitting offers and the lowest priced vendor or the one that meets the buyer’s requirements gets the job

Exhibit 10.4 The E-Auction Process



The E-Auctions Process and Software Support



- Phase 1: Searching and Comparing
 - Finding When and Where an Item Will Be Auctioned
 - Auction Aggregators and Notification

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auction aggregators

Companies that use software agents to visit Web auction sites, find information, and deliver it to users

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- Browsing Site Categories
- Basic and Advanced Searching

The E-Auctions Process and Software Support



- Phase 2: Getting Started at an Auction
 - Registration and Participants' Profiles
 - Listing and Promoting
 - Pricing
- Phase 3: Bidding
 - Bid Watching and Multiple Bids
 - **sniping**
Entering a bid during the very last seconds of an auction and outbidding the highest bidder (in the case of selling items)
 - Proxy Bids

The E-Auctions Process and Software Support



- Phase 4: Post-auction Follow-Up
 - Post-auction activities
 - Bidding notifications
 - End-of-auction notices
 - Seller notices
 - Postcards and thank-you notes
 - User communication
 - Chat groups
 - Mailing lists
 - Message boards

The E-Auctions Process and Software Support



- Phase 4: Post-auction Follow-Up
 - Feedback and ratings
 - Invoicing and billing
 - Payment methods
 - P2P transfer service
 - Escrow service
 - Credit card payment
 - Shipping and postage

The E-Auctions Process and Software Support



- Additional Terms and Rules

vertical auction

Auction that takes place between sellers and buyers in one industry or for one commodity

auction portals

Another name for a vertical auction portal

Double Auctions, Bundle Trading, and Pricing Issues



single auction

Auction in which at least one side of the market consists of a single entity (a single buyer or a single seller)

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double auction

Auction in which multiple buyers and sellers may be making bids and offers simultaneously; buyers and their bidding prices and sellers and their asking prices are matched, considering the quantities on both sides

Double Auctions, Bundle Trading, and Pricing Issues



bundle trading

The selling of several related products and/or services together

- **Prices in Auctions: Higher or Lower?**
 - **Pricing Strategies in Online Auctions**
 - Sellers have the option to use different auction mechanisms, such as English, Dutch, sealed-bid first price, and sealed-bid second price
 - Buyers should develop a strategy regarding how much to increase a bid and when to stop bidding

E-Auction Fraud and Its Prevention



- Types of E-Auction Fraud

- bid shielding**

- Having phantom bidders bid at a very high price when an auction begins; they pull out at the last minute, and the bidder who bid a much lower price wins

- shilling**

- Placing fake bids on auction items to artificially jack up the bidding price

E-Auction Fraud and Its Prevention



- Types of E-Auction Fraud
 - Fake photos and misleading descriptions
 - Improper grading techniques
 - Bid siphoning
 - Selling reproductions as originals
 - Failure to pay
 - Failure to pay the auction house

E-Auction Fraud and Its Prevention



- Types of E-Auction Fraud
 - High shipping costs and handling fees
 - Failure to ship merchandise
 - Loss and damage claims
 - Fake escrow services
 - Switch and return
 - Other frauds

E-Auction Fraud and Its Prevention



- Protecting Against E-Auction Fraud
 - User identity verification
 - Authentication service
 - Grading services
 - Feedback forum
 - Insurance policy
 - Escrow services

E-Auction Fraud and Its Prevention



- Protecting Against E-Auction Fraud
 - Nonpayment punishment
 - Appraisal services
 - Physical inspection
 - Item verification
 - Other security services

Bartering and Negotiating Online



- Bartering Online

bartering

The *exchange* of goods and services

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electronic bartering (e-bartering)

Bartering conducted online, usually by a bartering exchange

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Bartering and Negotiating Online



- Negotiation and Bargaining

online negotiation

A back-and-forth electronic process of bargaining until the buyer and seller reach a mutually agreeable price; usually done by software (intelligent) agents

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Bartering and Negotiating Online



- Negotiation and Bargaining
 - Technologies for Electronic Bargaining
 1. Search
 2. Selection
 3. Negotiation
 4. Continuing selection and negotiation
 5. Transaction completion

Issues in E-Auction Implementation



- Using Intermediaries
 - The following are some of the popular third-party auction sites:
 - General sites [duong than cong. com](http://duongthancong.com)
 - Specialized sites
 - B2B-oriented sites
- Using Trading Assistants
- Auction Rules

Issues in E-Auction Implementation



- Strategic Issues
- Auctions in Exchanges
- Infrastructure for E-Auctions
 - Building Auction Sites
- Auctions on Private Networks
 - Pigs in Singapore and Taiwan
 - Livestock in Australia

Exhibit 10.6 Integrated Auction Business Model

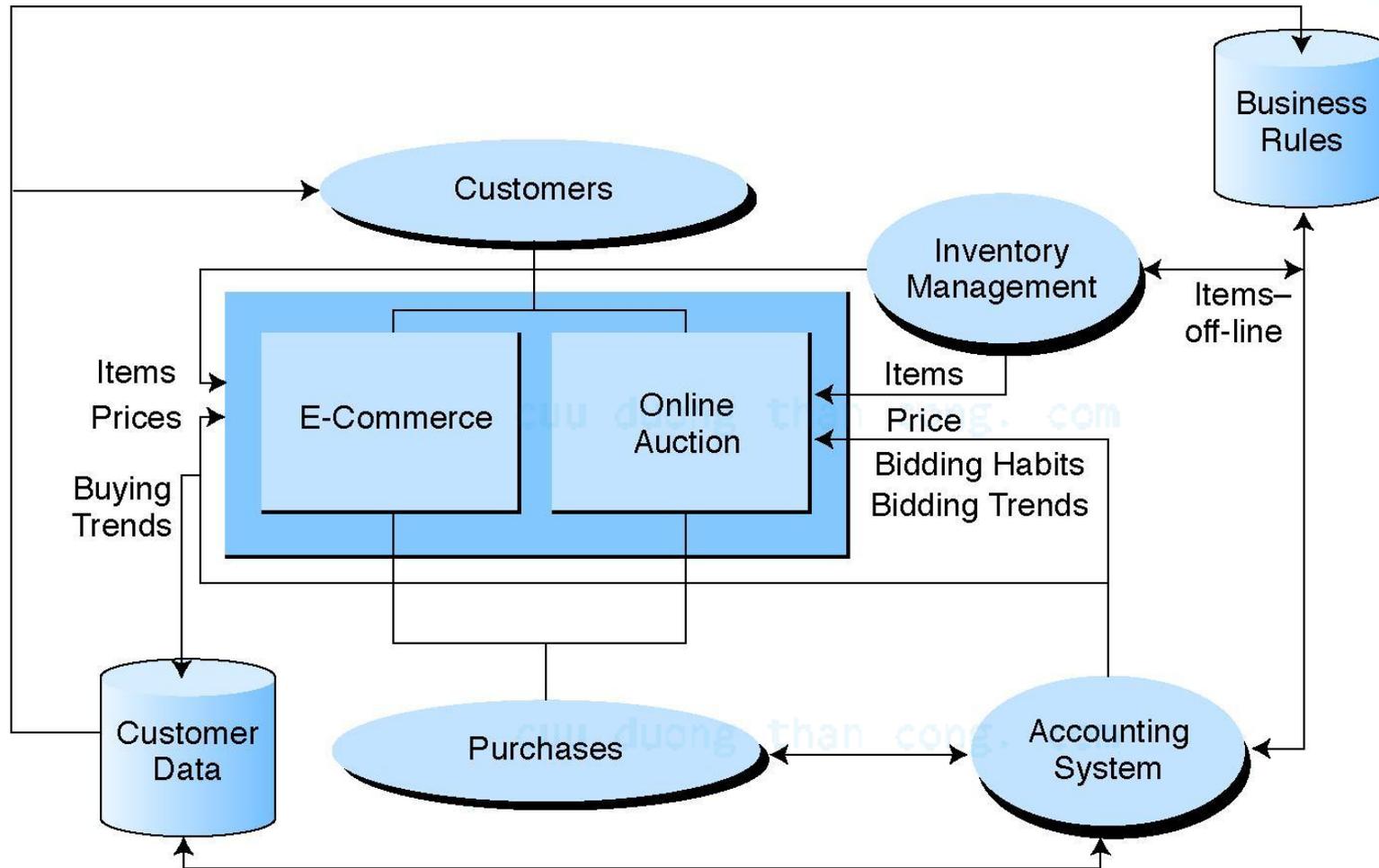
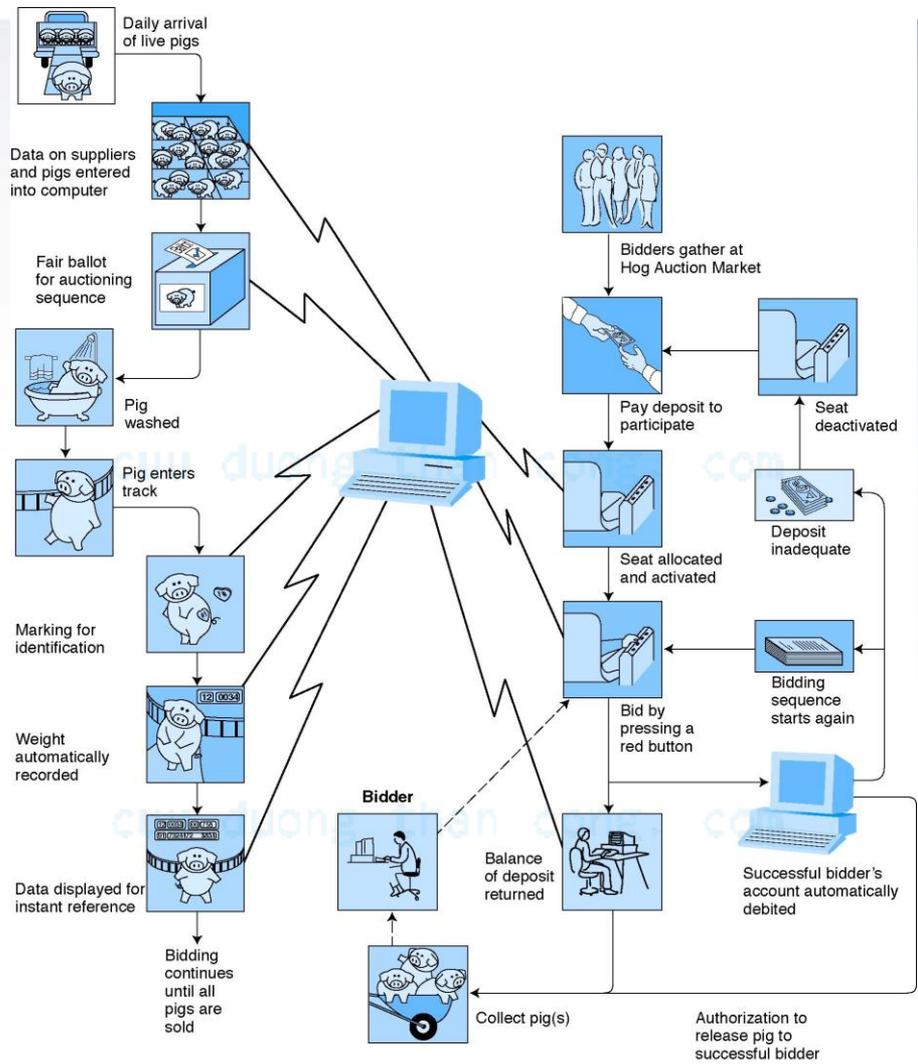


Exhibit 10.7 Auctioning Pigs in Singapore



Mobile E-Auctions and the Future of Auctions



- Benefits and Limitations of Mobile Auctions
 - Benefits
 - Convenience and ubiquity
 - Privacy
 - Simpler and faster
 - Limitations
 - Visual quality
 - Memory capacity
 - Security

Mobile E-Auctions and the Future of Auctions



- The Future of E-Auctions
 - Global Auctions
 - Selling Art Online in Real-Time Auctions
 - Strategic Alliances

Managerial Issues



1. Should we have our own auction site or use a third party site?
2. What are the costs and benefits of auctions?
3. What auction strategies would we use?
4. What about support services?
5. Should we have our own auction site or use a third party site?
6. What are the costs and benefits of auctions?
7. What auction strategies would we use?
8. What about support services?

Summary



1. The various types of auctions and their characteristics.
2. The processes of forward and reverse auctions.
3. Benefits and limitations of auctions.
4. Unique auction models.

Summary



5. Services that support auctions.
6. Hazards of e-auction fraud and countermeasures.
7. Bartering and negotiating.
8. Auction deployment and implementation.
9. Future directions and the role of mobile auctions.