

	<h1>Chapter 11</h1> <h2>Auctions</h2>

	<h1>Learning Objectives</h1>
	<ol style="list-style-type: none"> <li>1. Define the various types of auctions and list their characteristics.</li> <li>2. Describe the processes involved in conducting forward and reverse auctions.</li> <li>3. Describe the benefits and limitations of auctions.</li> </ol>

	<h1>Learning Objectives (cont.)</h1>
	<ol style="list-style-type: none"> <li>4. Describe some unique auction models.</li> <li>5. Describe the various services that support auction</li> <li>6. Describe the hazards of e-auction fraud and discuss possible countermeasures.</li> <li>7. Describe bartering and negotiating.</li> </ol>

	<h1>Learning Objectives (cont.)</h1>
	<ol style="list-style-type: none"> <li>8. Describe auction deployment and implementation issues.</li> <li>9. Analyze future directions of mobile auctions.</li> </ol>

	<h1>E-Bay: World's Largest Auction Site</h1>
	<ul style="list-style-type: none"> <li>➤ The Opportunity <ul style="list-style-type: none"> <li>➤ <b>eBay is one of the most profitable e-businesses</b></li> <li>➤ <b>Pam Omidyar—collector of Pez dispensers had the idea to trade them over the Internet</b></li> <li>➤ <b>Her husband came up with the e-business auction concept</b></li> </ul> </li> </ul>

	<h1>E-Bay (cont.)</h1>
	<ul style="list-style-type: none"> <li>➤ The Solution <ul style="list-style-type: none"> <li>➤ <b>Online auction house with millions of unique auctions in progress and over 500,000 new items added each day</b></li> <li>➤ <b>The initial business model of eBay was to provide an electronic infrastructure for conducting mostly C2C auctions entirely managed by technology</b></li> </ul> </li> </ul>

	E-Bay (cont.)
	<ul style="list-style-type: none"> <li>➤ On eBay, people can buy and sell just about anything <ul style="list-style-type: none"> <li>➤ <b>The company collects a submission fee upfront</b></li> <li>➤ <b>And a commission as a percentage of the sale amount</b></li> </ul> </li> </ul>
© Prentice Hall 2004	7

	E-Bay (cont.)
	<ul style="list-style-type: none"> <li>➤ The auction process: <ul style="list-style-type: none"> <li>➤ <b>seller fills in the appropriate registration information</b></li> <li>➤ <b>posts a description of the item for sale specifying a minimum opening bid</b></li> </ul> </li> </ul>
© Prentice Hall 2004	8

	E-Bay (cont.)
	<ul style="list-style-type: none"> <li>➤ If a successful bid is made, the seller and the buyer negotiate <ul style="list-style-type: none"> <li>➤ <b>the payment method</b></li> <li>➤ <b>shipping details</b></li> <li>➤ <b>warranty</b></li> <li>➤ <b>other particulars</b></li> </ul> </li> <li>➤ eBay is the interface through which sellers and buyers can conduct business</li> </ul>
© Prentice Hall 2004	9

	E-Bay (cont.)
	<ul style="list-style-type: none"> <li>➤ In 2001, eBay started to auction fine art in collaboration with: <ul style="list-style-type: none"> <li>➤ <b>icollector.com of the United Kingdom; and</b></li> <li>➤ <b>Sotheby's (sothebys.com)</b></li> </ul> </li> </ul> <p><b>Due to lack of profit eBay and Sotheby's discontinued separate online auctions and began placing emphasis on promoting Sotheby's live auctions through eBay's Live Auctions technology</b></p>
© Prentice Hall 2004	10

	E-Bay (cont.)
	<ul style="list-style-type: none"> <li>➤ eBay operates globally <ul style="list-style-type: none"> <li><b>Buyers from more than 150 other countries participate</b></li> </ul> </li> <li>➤ eBay operates a business exchange in which SMEs can buy and sell new and used merchandise in B2B or B2C modes</li> </ul>
© Prentice Hall 2004	11

	E-Bay (cont.)
	<ul style="list-style-type: none"> <li>➤ Some eBay sites (eBay Motors) concentrate on specialty items</li> <li>➤ Trading can be done from anywhere, at any time</li> <li>➤ Wireless trading is possible</li> </ul>
© Prentice Hall 2004	12

## E-Bay (cont.)

- eBay Seller Payment Protection (2002) offers:
  - **credit card chargeback protection**
  - **guaranteed electronic checks**
  - **secure processing**
  - **privacy protection**
- eBay started e-tailing at fixed prices

© Prentice Hall 2004

13

## E-Bay (cont.)

- Other specialty sites
  - **half.com, the famous discount e-tailer**
  - **PayPal.com, the P2P payment company**
- eBay Stores are rented to individuals and companies
  - **sell from catalogs**
  - **conduct auctions**

© Prentice Hall 2004

14

## E-Bay (cont.)

- In 2002, eBay introduced the Business Marketplace (*ebaybusiness.com*)
  - **All business-related listings on eBay into one destination**
  - **Makes it easier for small businesses to find the equipment and supplies they need**

© Prentice Hall 2004

15

## E-Bay (cont.)

- The Results
  - **Brought a limited-access off-line business model to the desktops of consumers worldwide by using the Internet**
  - **Consistently generates a profit and promotes a sense of community**
  - **50 million registered users by fall 2002**
  - **Transacted over \$14.7 billion in sales in 2002**

© Prentice Hall 2004

16

## E-Bay (cont.)

- What we can learn...
  - eBay demonstrates the success of a company that implemented an EC business model that took off very rapidly**
    - **some of the ideas of auctioning**
    - **auctions can be an online-only e-commerce channel or they can be a supplementary channel**

© Prentice Hall 2004

17

## Fundamentals of Dynamic Pricing and 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
- **Electronic auctions (e-auctions):** Auctions conducted online

© Prentice Hall 2004

18

## Fundamentals of Dynamic Pricing and Auctions (cont.)

- The flexibility offered by online auction trading may offer innovative market processes
- Major manufacturers and e-tailers use auctions to sell products and services
- **Dynamic pricing:** Prices that are determined based on supply and demand relationships at any given time

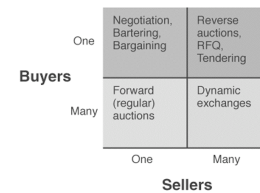
© Prentice Hall 2004

19

## Types of Auctions

- **One buyer, one seller**  
use negotiation, bargaining, or bartering

Exhibit 11.1 Types of Dynamic Pricing



© Prentice Hall 2004

20

## Types of Auctions (cont.)

- 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

© Prentice Hall 2004

21

## Types of Auctions (cont.)

- **Vickrey auction:** Sealed-bid auction in which the item is awarded to the highest bidder, but at the second-highest price that was bid (in the case of selling items)



© Prentice Hall 2004

22

## Types of Auctions (cont.)

- 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 price reducing sequentially, and the lowest bid wins; used mainly in B2B and G2B e-commerce

© Prentice Hall 2004

23

## Types of Auctions (cont.)

- B2B reverse auctions
  - Gaining popularity as an online mechanism for selling and especially for buying goods and services
- C2C reverse auctions
  - Mostly forward auctions, but increasingly reverse auctions are being used in C2C

© Prentice Hall 2004

24

## Types of Auctions (cont.)

- *"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

© Prentice Hall 2004

25

## Types of Auctions (cont.)

- 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**
  - Stocks
  - Commodities

© Prentice Hall 2004

26

## 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 cost**

© Prentice Hall 2004

27

## Benefits of E-Auctions (cont.)

- Benefits to buyers
  - **Opportunities to find unique items and collectibles**
  - **Chance to pay less**
  - **Entertainment**
  - **Anonymity**
  - **Convenience**

© Prentice Hall 2004

28

## Benefits of E-Auctions (cont.)

- Benefits to e-auctioneers
  - **Higher repeat purchases**
  - **A stickier Web site**
  - **Expansion of the auction business**

© Prentice Hall 2004

29

## Limitations of E-Auctions

- Possibility of fraud
- Limited participation
- Security
- Auction software
- Long cycle time
- Monitoring time
- Equipment for buyers

© Prentice Hall 2004

30

	<h2>Strategic Uses of Auctions and Pricing Mechanisms</h2>
	<ul style="list-style-type: none"> <li>➤ Dynamic pricing allows buyers and sellers to be able to adjust pricing strategies and optimize product inventory levels very quickly <ul style="list-style-type: none"> <li>➤ <b>Suppliers quickly flush excess inventory and liquidate idle assets</b></li> <li>➤ <b>Buyers obtain the power to procure goods and services at the prices they desire</b></li> </ul> </li> </ul>
© Prentice Hall 2004	31

	<h2>“Name-Your-Own-Price” C2B Model</h2>
	<ul style="list-style-type: none"> <li>➤ Priceline.com pioneered this model <ul style="list-style-type: none"> <li><b>Enables consumers to achieve significant savings by naming their own price for goods and services</b></li> </ul> </li> </ul>
© Prentice Hall 2004	32

	<h2>“Name-Your-Own-Price” C2B Model (cont.)</h2>
	<ul style="list-style-type: none"> <li>➤ Limitation <ul style="list-style-type: none"> <li><b>When a buyer names their own price for airline tickets, they are <i>not</i> told what airline they are going to fly with, how many stops are involved, or what time of the day the flight will depart until the buyer accepts the offer and pays</b></li> </ul> </li> </ul>
© Prentice Hall 2004	33

	<h2>“Name-Your-Own-Price” C2B Model (cont.)</h2>
	<ul style="list-style-type: none"> <li>➤ Priceline.com has offered multiple products and services: <ul style="list-style-type: none"> <li>➤ <b>travel services</b></li> <li>➤ <b>personal finance services</b></li> <li>➤ <b>automotive service that offers new cars for sale</b></li> <li>➤ <b>credit cards</b></li> <li>➤ <b>long-distance calling</b></li> </ul> </li> </ul>
© Prentice Hall 2004	34

	<h2>Auction Process and Software Support</h2>
	<ul style="list-style-type: none"> <li>➤ Phase 1: Searching and comparing <ul style="list-style-type: none"> <li>➤ <b>Finding when and where an item will be auctioned</b></li> <li>➤ <b>Auction aggregators and notification</b> <ul style="list-style-type: none"> <li><i>Auction aggregators: Companies that use software agents to visit Web auction sites, find information, and deliver it to users</i></li> </ul> </li> <li>➤ <b>Browsing site categories</b></li> <li>➤ <b>Basic and advanced searching</b></li> </ul> </li> </ul>
© Prentice Hall 2004	35

	<h2>Auction Process and Software Support (cont.)</h2>
	<ul style="list-style-type: none"> <li>➤ Phase 2: Getting started at an auction <ul style="list-style-type: none"> <li>➤ <b>Registration and profiles</b></li> <li>➤ <b>Listing and promoting (software)</b> <ul style="list-style-type: none"> <li>➤ <b>Advertisement Wizard</b></li> <li>➤ <b>Auction Assistant</b></li> <li>➤ <b>Auctiva Mr. Poster</b></li> </ul> </li> <li>➤ <b>Pricing</b></li> </ul> </li> </ul>
© Prentice Hall 2004	36

	<b>Auction Process and Software Support (cont.)</b>
	<ul style="list-style-type: none"> <li>➤Phase 3: The actual bidding <ul style="list-style-type: none"> <li>➤<b>Bid watching and multiple bids</b></li> <li>➤<b>Sniping</b> Entering a bid during the very last seconds of an auction and outbidding the highest bidder (in the case of selling items)</li> </ul> </li> </ul>
© Prentice Hall 2004	37

	<b>Auction Process and Software Support (cont.)</b>
	<ul style="list-style-type: none"> <li>➤Phase 3 (cont.) <ul style="list-style-type: none"> <li>➤<b>Proxy bids</b> <i>Proxy bidding:</i> Use of a software system to place bids on behalf of buyers; when another bidder places a bid, the software (the proxy) will automatically raise the bid to the next level until it reaches the predetermined maximum price</li> </ul> </li> </ul>
© Prentice Hall 2004	38

	<b>Auction Process and Software Support (cont.)</b>
	<ul style="list-style-type: none"> <li>➤Phase 4: Post-auction follow-up <ul style="list-style-type: none"> <li>➤<b>Post-auction notifications</b> <ul style="list-style-type: none"> <li>➤Bidding notifications</li> <li>➤End-of-auction notices</li> <li>➤Seller notices</li> <li>➤Postcards and thank-you notes</li> </ul> </li> </ul> </li> </ul>
© Prentice Hall 2004	39

	<b>Auction Process and Software Support (cont.)</b>
	<ul style="list-style-type: none"> <li>➤Phase 4 (cont.) <ul style="list-style-type: none"> <li>➤<b>User communication</b> <ul style="list-style-type: none"> <li>➤Chat groups</li> <li>➤Mailing lists</li> <li>➤Message boards</li> </ul> </li> <li>➤<b>Feedback and ratings</b></li> <li>➤<b>Invoicing and billing</b></li> </ul> </li> </ul>
© Prentice Hall 2004	40

	<b>Auction Process and Software Support (cont.)</b>
	<ul style="list-style-type: none"> <li>➤Phase 4 (cont.) <ul style="list-style-type: none"> <li>➤<b>Payment methods</b> <ul style="list-style-type: none"> <li>➤Electronic transfer service</li> <li>➤Escrow service</li> <li>➤Credit card payment</li> </ul> </li> <li>➤<b>Shipping and postage</b> <ul style="list-style-type: none"> <li>➤Internet shippers</li> <li>➤Internet postage</li> </ul> </li> </ul> </li> </ul>
© Prentice Hall 2004	41

	<b>Auction Process and Software Support (cont.)</b>
	<ul style="list-style-type: none"> <li>➤Additional terms and rules <ul style="list-style-type: none"> <li>➤<b>Reserve price auction</b></li> <li>➤<b>Vertical auction</b> <ul style="list-style-type: none"> <li>➤Auction that takes place between sellers and buyers in one industry or for one commodity</li> <li>➤<i>Auction vortals:</i> Another name for a vertical auction portal</li> </ul> </li> <li>➤<b>Bid retraction</b></li> <li>➤<b>Featured auctions</b></li> </ul> </li> </ul>
© Prentice Hall 2004	42

## Auctions on Private Networks

- Flower market in the Netherlands
- Pigs in Singapore and Taiwan
- Livestock in Australia

© Prentice Hall 2004

43

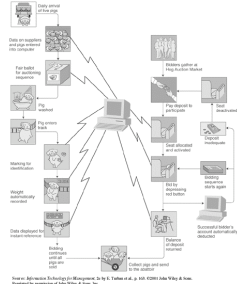
## Double Auctions

- **Single auction:** Auction in which at least one side of the market consists of a single entity (a single buyer or a single seller)
- **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

© Prentice Hall 2004

44

## Double Auctions (cont.)



© Prentice Hall 2004

45

## Bundle Trading

- **Bundle trading:** The selling of several related products and/or service together

© Prentice Hall 2004

46

## Prices in Auctions: Higher or Lower?

- Compared to competitive markets, prices in auctions tend to be higher, reaching monopoly level when there is only one seller or one product
- Auction prices are lower when:
  - **A seller is liquidating a product**
  - **Online auctions are usually an alternative selling channel rather than an exclusive selling arrangement**

© Prentice Hall 2004

47

## Prices in Auctions: Higher or Lower? (cont.)

- Pricing strategies online
  - **Sellers have the option to use different auction mechanisms, such as English, Dutch, sealed-bid first price, and sealed-bid second price**
  - **Buyers need to develop a strategy regarding how much to increase a bid and when to stop bidding**

© Prentice Hall 2004

48



	<b>Auction Fraud and Its Prevention</b>
	<ul style="list-style-type: none"> <li>➤Types of e-auction fraud <ul style="list-style-type: none"> <li>➤<b>Bid shielding</b> 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</li> <li>➤<b>Shilling</b> Placing fake bids on auction items to artificially jack up the bidding price</li> </ul> </li> </ul>
	<small>© Prentice Hall 2004</small> <small>49</small>

	<b>Auction Fraud and Its Prevention (cont.)</b>
	<ul style="list-style-type: none"> <li>➤<b>Fake photos and misleading descriptions</b></li> <li>➤<b>Improper grading techniques</b></li> <li>➤<b>Selling reproductions</b></li> <li>➤<b>Failure to pay</b></li> </ul>
	<small>© Prentice Hall 2004</small> <small>50</small>

	<b>Auction Fraud and Its Prevention (cont.)</b>
	<ul style="list-style-type: none"> <li>➤<b>Failure to pay the auction house</b></li> <li>➤<b>High shipping costs and handling fees</b></li> <li>➤<b>Failure to ship merchandise</b></li> <li>➤<b>Loss and damage claims</b></li> <li>➤<b>Switch and return</b></li> <li>➤<b>Other frauds</b></li> </ul>
	<small>© Prentice Hall 2004</small> <small>51</small>

	<b>Auction Fraud Prevention (cont.)</b>
	<ul style="list-style-type: none"> <li>➤Protecting against e-auction fraud <ul style="list-style-type: none"> <li>➤<b>User identity verification</b></li> <li>➤<b>Authentication service</b></li> <li>➤<b>Grading services</b></li> <li>➤<b>Feedback forum</b></li> <li>➤<b>Insurance policy</b></li> </ul> </li> </ul>
	<small>© Prentice Hall 2004</small> <small>52</small>

	<b>Auction Fraud Prevention (cont.)</b>
	<ul style="list-style-type: none"> <li>➤<b>Escrow services</b></li> <li>➤<b>Nonpayment punishment</b></li> <li>➤<b>Appraisal services</b></li> <li>➤<b>Physical inspection</b></li> <li>➤<b>Verification</b></li> </ul>
	<small>© Prentice Hall 2004</small> <small>53</small>

	<b>Bartering and Negotiating Online</b>
	<ul style="list-style-type: none"> <li>➤<i>Bartering</i>: The exchange of goods and services</li> <li>➤<i>Electronic bartering (e-bartering)</i>: Bartering conducted online, usually by a bartering exchange</li> </ul>
	<small>© Prentice Hall 2004</small> <small>54</small>

	<h2>Bartering and Negotiating Online (cont.)</h2>
	<p>➤ <i>Online negotiation</i>: A back-and-forth electronic process of bargaining until the buyer and seller reach a mutually agreeable price; usually done by software (intelligent) agents</p>
© Prentice Hall 2004	55

	<h2>Bartering and Negotiating Online (cont.)</h2>
	<p>➤ Technologies for bartering</p> <p>➤ <b>Search</b> The buyer or seller gathers information about products and services and locates potential vendors or customers</p> <p>➤ <b>Selection</b> The buyer or seller processes and filters information in order to select a product or trading partner</p>
© Prentice Hall 2004	56

	<h2>Bartering and Negotiating Online (cont.)</h2>
	<p>➤ <b>Negotiation</b> The two parties interact with bids and offers until an agreement is made</p> <p>➤ <b>Continuing selection and negotiation</b> The previous steps are repeated sequentially, if necessary, until an agreement is reached and a contract is written</p> <p>➤ <b>Transaction completion</b> The buyer pays for the product and the seller ships the product to the buyer</p>
© Prentice Hall 2004	57

	<h2>Bartering and Negotiating Online (cont.)</h2>
	<p>➤ Major <i>benefits</i> of electronic negotiations:</p> <p>➤ <b>Buyers and sellers do not need to determine prices beforehand</b></p> <p>➤ <b>Intelligent agents can negotiate both price and nonprice attributes</b></p> <p>➤ <b>Transaction completion</b></p>
© Prentice Hall 2004	58

	<h2>Issues in Auction Implementation</h2>
	<p>➤ Using intermediaries</p> <p>➤ <b>Popular third-party auction sites:</b></p> <p>➤ <b>General sites:</b> auctions.amazon.com, auctions.yahoo.com</p> <p>➤ <b>Specialized sites:</b> baseball-cards.com, oldandsold.com</p> <p>➤ <b>B2B-oriented site:</b> freemarkets.com, bid4assets.com</p>
© Prentice Hall 2004	59

	<h2>Issues in Auction Implementation (cont.)</h2>
	<p>➤ Auction rules</p> <p><b>Three major categories</b></p> <p>➤ <b>bidding rules</b></p> <p>➤ <b>clearing rules</b></p> <p>➤ <b>information-revelation rules</b></p> <p>➤ Rules provide definitions, restrictions, and timing constraint</p>
© Prentice Hall 2004	60

## Issues in Auction Implementation (cont.)

- **Strategic issues**
  - **which items (services) to auction; what type of auction to use**
  - **whether to do the auction in-house or to use an auctioneer (and which one)**
  - **how long to run each auction**
  - **how to set the initial prices**
  - **how to accept a bid**
  - **what increments to allow in the bidding**
  - **what information to disclose to the participants**

© Prentice Hall 2004

61

## Issues in Auction Implementation (cont.)

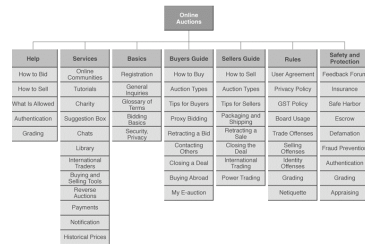
- Building auction sites—a complex process
  - **The number of necessary features can be very large**
  - **B2B auctions must be integrated with the back-end offices and with the legacy systems of participating companies**

© Prentice Hall 2004

62

## Issues in Auction Implementation (cont.)

Exhibit 11.5 Components of a Comprehensive Auction Site

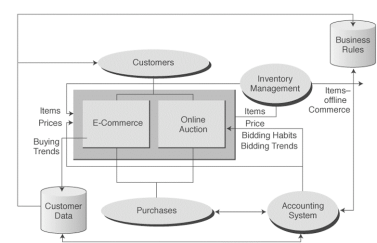


© Prentice Hall 2004

63

## Issues in Auction Implementation (cont.)

Exhibit 11.6 Integrated Auction Business Model



© Prentice Hall 2004

64

## Mobile Auctions

- **Benefits of mobile auctions**
  - **Convenience and ubiquity**
  - **Privacy**
  - **Simpler and faster**

© Prentice Hall 2004

65

## Mobile Auctions (cont.)

- **Limitations of mobile auctions**
  - **Visual quality**
  - **Memory capacity**
  - **Security**

© Prentice Hall 2004

66

	Future of Auctions
<p>➤Global auctions</p> <p><b>Companies that seek to serve the international market may face all the regular problems of selling online in foreign countries</b></p> <p>© Prentice Hall 2004</p>	67

	Future of Auctions (cont.)
<p>➤Selling art online in real-time auctions</p> <p>➤<b>Icollector.com</b></p> <p>➤<b>Butterfields.com</b></p> <p>➤<b>Sothebys.com</b></p> <p>➤Strategic alliances</p> <p><b>Major impact on competition and on industry structure because they put sellers and buyers together more directly, cutting out intermediaries in a market</b></p> <p>© Prentice Hall 2004</p>	68

	Managerial Issues
<ol style="list-style-type: none"> <li>1. Should we have our own auction site or use a third-party site?</li> <li>2. What are the costs and benefits of auctions?</li> <li>3. What auction strategies would we use?</li> <li>4. What about support services?</li> </ol> <p>© Prentice Hall 2004</p>	69

	Managerial Issues (cont.)
<ol style="list-style-type: none"> <li>5. What would we auction?</li> <li>6. What is the best bartering strategy?</li> <li>7. How can we promote our auction?</li> <li>8. Should we combine auctions with other models?</li> </ol> <p>© Prentice Hall 2004</p>	70

	Summary
<ol style="list-style-type: none"> <li>1. The various types of auctions and their characteristics.</li> <li>2. The processes of forward and reverse auctions.</li> <li>3. Benefits and limitations of auctions.</li> <li>4. Unique auction models.</li> <li>5. Services that support auctions.</li> </ol> <p>© Prentice Hall 2004</p>	71

	Summary (cont.)
<ol style="list-style-type: none"> <li>6. Hazards of e-auction fraud and countermeasures.</li> <li>7. Bartering and negotiating.</li> <li>8. Auction deployment and implementation.</li> <li>9. Future directions and the role of mobile auctions.</li> </ol> <p>© Prentice Hall 2004</p>	72