Chapter 10

Dynamic Trading: E-Auctions, Bartering, and Negotiations

Learning Objectives

1. Define the various types of e-auctions and list their characteristics.
2. Describe forward and reverse auctions.
3. Describe the benefits and limitations of e-auctions.
4. Describe some unique e-auction models.
5. Describe the various services that support e-auctions.

Learning Objectives

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

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

- **electronic auctions (e-auctions)**

  Auctions conducted online

Fundamentals of Dynamic Pricing and E-Auctions

- **dynamic pricing**

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

Fundamentals of Dynamic Pricing and E-Auctions

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**
- **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 bid prices are
  - **Vickrey auction**

    Auction in which the highest bidder wins but pays only the second highest bid

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

Fundamentals of Dynamic Pricing and E-Auctions

- B2B reverse auctions
- C2C reverse auctions
- **"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**
  - **vertical auction**

    Auction that takes place between sellers and buyers in one industry or for one commodity
  - **auction vortals**

    Another name for a vertical auction vertical portal

Benefits, Limitations, and Strategic Uses of E-Auctions

- **Benefits of E-Auctions**
  - Benefits to sellers
    - Larger reach and increased revenues
    - Optimal price setting
    - Removal of expensive intermediaries
    - Liquidation
    - Lower transaction costs
    - Lower administrative costs
    - Better customer relationships

Benefits, Limitations, and Strategic Uses of E-Auctions

- Benefits to buyers
  - Opportunities to Find Unique Items and Collectibles
  - Lower prices
  - Anonymity
  - Convenience
  - Entertainment
- Benefits to E-Auctioneers
  - Higher repeat purchases
  - A stickier Web site
  - Expansion of the auction business

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
- **Auctions for Publicity**
 - Auctions can be used to attract attention

The "Name-Your-Own-Price" C2B Model

- One of the most interesting e-commerce models is the "*name-your-own-price"* model
- This model enables consumers to achieve significant savings by naming their own price for goods and services
- The concept is that of a 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

The Forward E-Auction Process and Software Support

EXHIBIT 10.4 The E-Auction Process
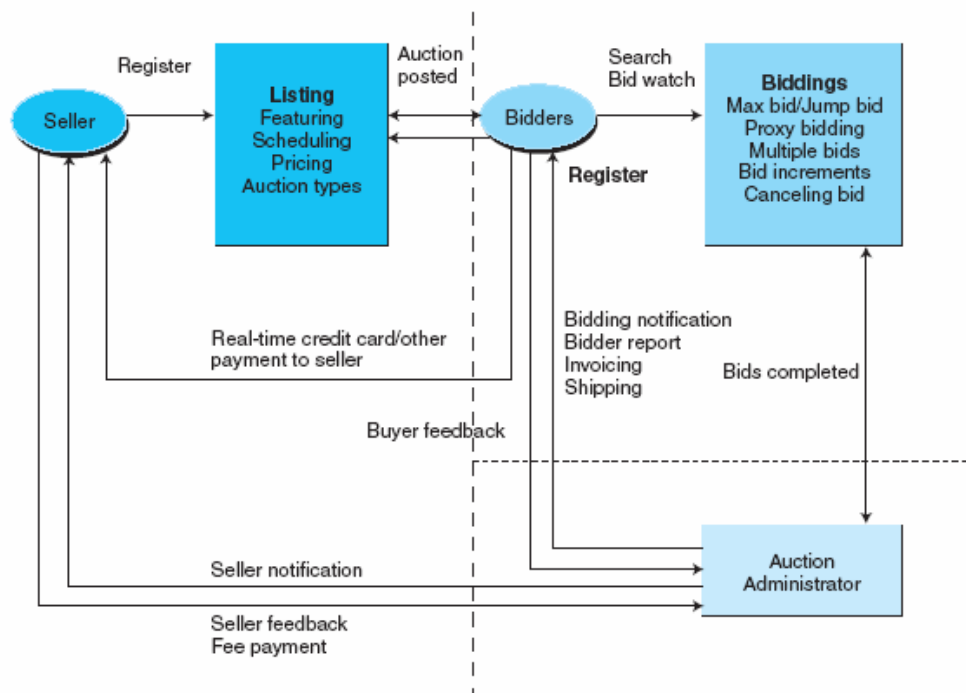
The Forward E-Auction Process and Software Support

- **Phase 1: Searching and Comparing**
  - Auction aggregators and notification
    - **auction aggregators**

      Companies that use software agents to visit Web auction sites, find information, summarize it, and deliver it to users
  - Browsing site categories
  - Basic and advanced searching

The Forward E-Auction Process and Software Support

- **Phase 2: Getting Started at an Auction**
  - Registration and participants' profiles
  - Listing and promoting
  - Pricing

The Forward E-Auction Process and Software Support

- **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
    - **proxy bidding**

      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 buyer's predetermined maximum price

The Forward E-Auction Process and Software Support

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

The Forward E-Auction Process and Software Support

- Feedback and ratings
- Invoicing and billing
- Payment methods
  - P2P transfer service
  - Escrow service
  - Credit card payment
- Shipping and postage

The Forward E-Auction Process and Software Support

- **Additional Terms and Rules**
  - Bid retraction
  - Featured auctions
  - Other services

Double Auctions, Bundle Trading, and Pricing Issues

- **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

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

Bartering and Negotiating Online

- **bartering**

  The *exchange* of goods and services
- **electronic bartering (e-bartering)**

  Bartering conducted online, usually by a bartering exchange
  - Consumer-to-consumer barter exchanges

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; sometimes supported by software (intelligent) agents
  - P2P online negotiations

Bartering and Negotiating Online

- Technologies for electronic bargaining
  - Search
  - Selection
  - Negotiation
  - Continuing selection and negotiation
  - Transaction completion

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 real 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

- 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

- 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
- Nonpayment punishment
- Appraisal services
- Physical inspection
- Item verification
- Buyer protections
- Spoof (fraudulent) Web site protection
- eBay security center

Issues in E-Auction Implementation

- **Using Intermediaries**
  - Some of the popular third-party auction sites include:
    - General sites
    - Specialized sites
    - B2B-oriented sites
- **Trading Assistants**
- **Auction Rules**

Issues in E-Auction Implementation

- **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
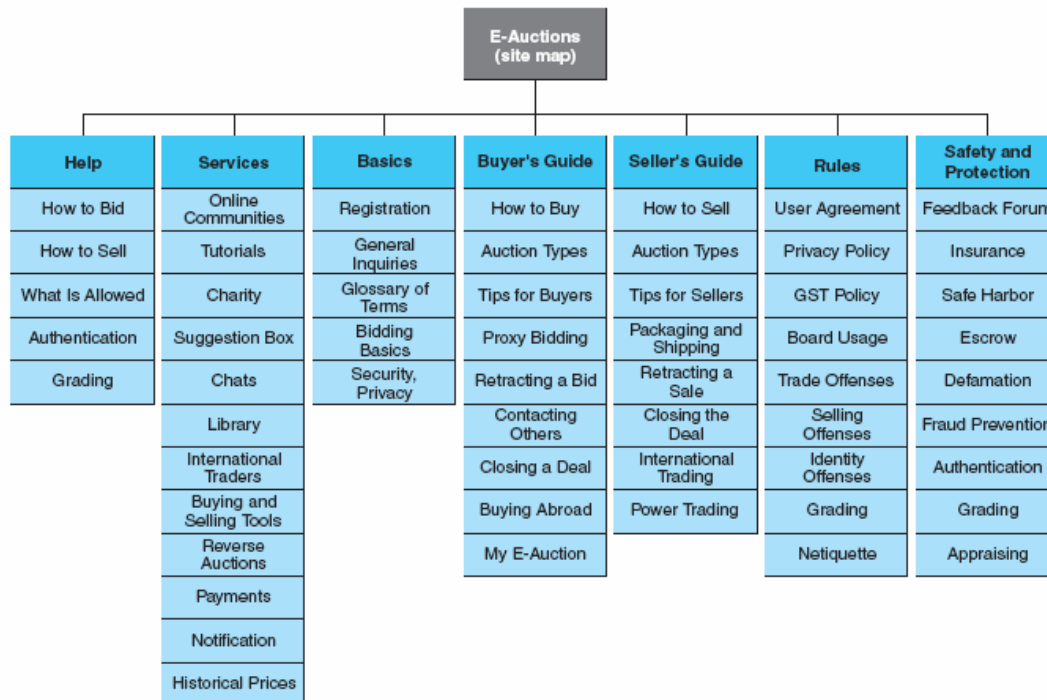 - What information to disclose to the participants

Issues in E-Auction Implementation

- **Auctions in Exchanges**
- **Infrastructure for E-Auctions**
  - Building auction sites
- **Auctions on Private Networks**
  - Pigs in Singapore and Taiwan
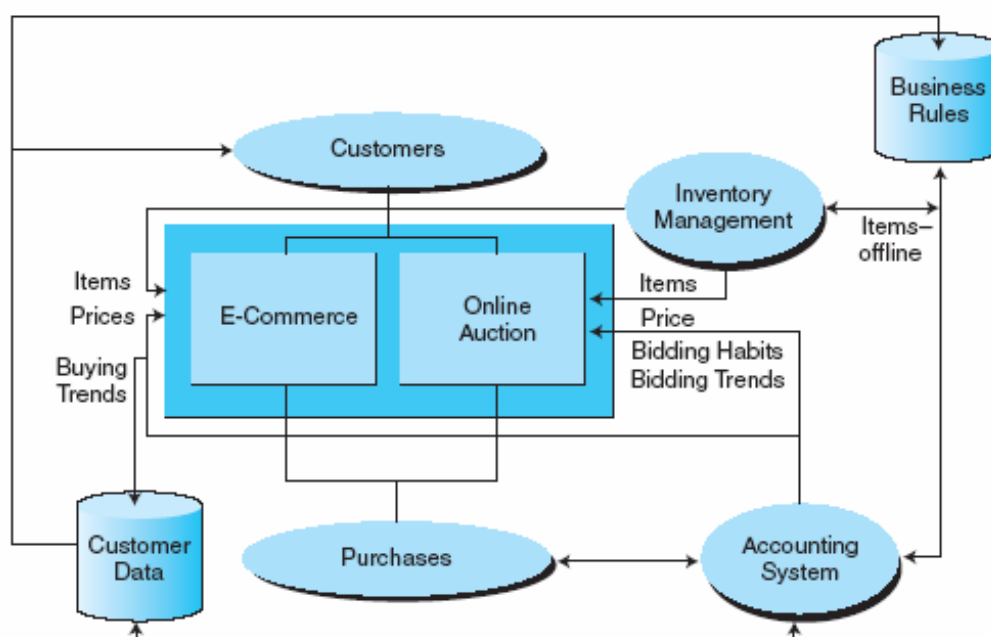 - Livestock auctions in Australia

Issues in E-Auction Implementation

EXHIBIT 10.5 Components of a Comprehensive Auction Site

E-Auctions (site map)

| Help	Services	Basics	Buyer's Guide	Seller's Guide	Rules	Safety and Protection
How to Bid	Online Communities	Registration	How to Buy	How to Sell	User Agreement	Feedback Forum
How to Sell	Tutorials	General Inquiries	Auction Types	Auction Types	Privacy Policy	Insurance
What Is Allowed	Charity	Glossary of Terms	Tips for Buyers	Tips for Sellers	GST Policy	Safe Harbor
Authentication	Suggestion Box	Bidding Basics	Proxy Bidding	Packaging and Shipping	Board Usage	Escrow
Grading	Chats	Security, Privacy	Retracting a Bid	Retracting a Sale	Trade Offenses	Defamation
	Library		Contacting Others	Closing the Deal	Selling Offenses	Fraud Prevention
	International Traders		Closing a Deal	International Trading	Identity Offenses	Authentication
	Buying and Selling Tools		Buying Abroad	Power Trading	Grading	Grading
	Reverse Auctions		My E-Auction		Netiquette	Appraising
	Payments					
	Notification					
	Historical Prices					

Issues in E-Auction Implementation

EXHIBIT 10.6 Integrated Auction Business Process

Issues in E-Auction Implementation

EXHIBIT 10.7 Auctioning Pigs in Singapore
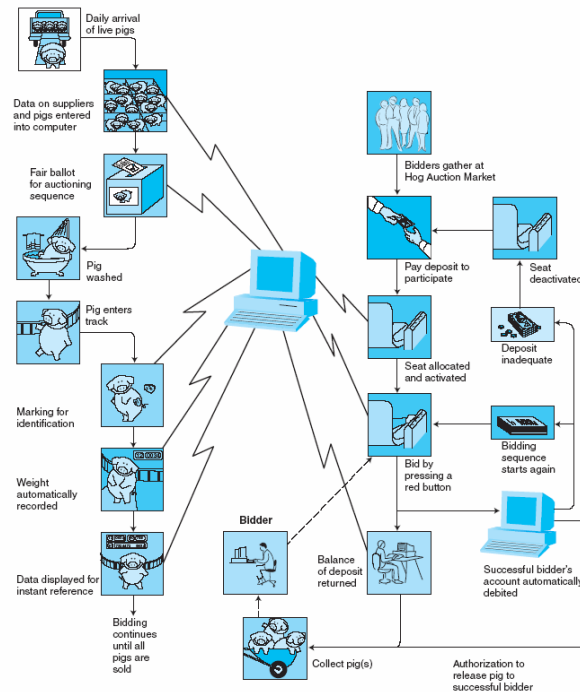
Mobile E-Auctions and the Future of Auctions

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

Mobile E-Auctions and the Future of Auctions

- **The Future of E-Auctions**
  - Global auctions
  - Wireless 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?

Managerial Issues

5. What would we auction?
6. What is the best bartering strategy?
7. How can we promote our auction?
8. Should we combine auctions with other models?