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.
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

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**Fundamentals of Dynamic Pricing and E-Auctions**

- **dynamic pricing**
  Fluctuating prices that are determined based on supply and demand relationships at any given time

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**EXHIBIT 10.1 Types of Dynamic Pricing**

<table>
<thead>
<tr>
<th>Buyers</th>
<th>Sellers</th>
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<tbody>
<tr>
<td>One</td>
<td>many</td>
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<tr>
<td>Many</td>
<td>One</td>
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</tbody>
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- Negotiation, Bidding, Tendering
- Dynamic exchanges
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

- 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

- 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 portals
    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 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

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

- 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

- 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.

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

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

- 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

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?