ONLINE AUCTIONS

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Auctions

- An auction is a market mechanism that uses a competitive process by which:
  - A seller solicits consecutive bids from buyers (forward auction)
  - A buyer solicits bids from the sellers (backward auctions)
  - Prices are determined dynamically by the bids
Auctions are useful to deal with products and services for which conventional marketing channels are ineffective or inefficient.

Different types of auctions to serve different goals.
TRADITIONAL AUCTIONS

- Last only a few minutes
- Rapid process with little time to make a decision, often outcome in no bids
- No much time to examine the goods
- Difficult to physically be in the auction site
MALTA PROPERTY AUCTION

giovedì 24 febbraio 2011
MALTA PROPERTY AUCTION

FOR SALE BY AUCTION

MOB: 9949 3899
2138 8402

www.maltapropertyauctioneers.com

MALTA PROPERTY AUCTION

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ELECTRONIC AUCTIONS

- Auctions conducted online
- Existed since 1980 over LANS and started in the Internet in 1995
- Host sites as brokers offering selling services
- eBay is the most famous example, offering any kind of goods and flexibility (Buy-It-Now for items not suitable for auctions, for instance)
DYNAMIC PRICING

- MAJOR FEATURE OF ONLINE AUCTIONS
- PRICES THAT CHANGE BASED ON SUPPLY AND DEMAND RELATIONSHIPS AT ANY GIVEN TIME
TYPES OF DYNAMIC PRICING

- **Negotiation, Bartering, Bargaining**
  - One Buyer, Many Sellers

- **Reverse auctions, RFQ, Tendering**
  - Many Buyer, One Seller

- **Forward (regular) auctions**
  - One Buyer, Many Sellers

- **Dynamic exchanges**
  - Many Buyer, Many Seller
TYPES OF AUCTIONS

☐ ONE BUYER, ONE SELLER: NEGOTIATION

☐ ONE SELLER, MANY BUYERS

☐ FORWARD AUCTION, BIDDERS INCREASE PRICES SEQUENTIALLY

☐ SEALED BID: 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 (NEGOZI A VENEZIA)

☐ VICKREY AUCTION: AN AUCTION IN WHICH THE HIGHEST BIDDER WINS BUT PAYS ONLY THE SECOND-HIGHEST BID
name: sheena
user id: www.SilverShake.com
location: thailand
feedback: 53734

EBAY POWERSELLER
EXHIBIT 10.2 TYPES OF FORWARD AUCTIONS

Liquidation Auctions

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

Disincentives to use auction shrink supply over time

Market Efficiency Auctions

Prefer market format that maximizes visibility with potential buyers

Incentives to use auction increase supply over time

Seek lowest price on widely available goods and services

Seek access to unique/rare products or services
TYPES OF AUCTIONS II

- **ONE BUYER, MANY 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; primarily a B2B or G2B mechanism.

- **NAME-YOUR-OWN-PRICE:** A buyer specifies how much he/she is willing to pay.
PRICELINE.COM

- Users select a price they are willing to pay
- Priceline search its own database for a suitable offer
- It's not a search! If an offer is found, you have to buy it (credit card is given at bidding time)
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
THE E-AUCTIONS PROCESS AND SOFTWARE SUPPORT

- Phase 1: Searching and Comparing
- Phase 2: Getting Started at an Auction
- Phase 3: Bidding
- Phase 4: Post-Auction Follow-up
THE E-AUCTION PROCESS

EXHIBIT 10.4
I - SEARCHING AND COMPARING

- Search from the Auction Website
- Use an Auction Aggregator
  - Keyword Search
  - Category Search
  - Advanced Search
BIDFIND.COM

DEAD

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2 - GETTING STARTED

- Registration of Participants’ Profiles
- Check the Seller’s ID and Past Transactions
- Items Promotion
- Pricing
EBAY SELLER TOOLS
3 - BIDDING

- Personalized user pages to keep track of different auctions
- Sniping: enter a bid at the last second, often performed by automatic tools
  - Sniping can be used by sellers in a fraudulent way
- Proxy bidding: an automated proxy makes incremental biddings
4 - POST-AUCTION

- END OF AUCTION NOTICES
- FEEDBACK AND RATING
- INVOICING AND BILLING
- PAYMENT
- SHIPMENT
- PRIVACY ISSUES (?)
EBAY FEEDBACK PROFILE

POWERSELLER USER

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BENEFITS OF E-AUCTIONS

☐ BENEFITS TO SELLERS

☐ INCREASED REVENUE

☐ BROAD AUDIENCE

☐ SAVE ON COMMISSIONS (OVER PHYSICAL AUCTIONS)

☐ CAN LIQUIDATE LARGE QUANTITIES QUICKLY

☐ IMPROVED CUSTOMER LOYALTY
BENEFITS OF E-AUCTIONS

- BENEFITS TO BUYERS
  - FIND UNIQUE ITEMS
  - ENTERTAINMENT
  - CONVENIENCE
  - ANONYMITY

- BENEFITS FOR AUCTIONEERS
  - REPEAT PURCHASES
  - STICKINESS

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LIMITS OF E-AUCTIONS

- **Minimal Security**: In C2C auctions, credit cards and other payments are insecure (that's why PayPal exists).

- **Possibility of Fraud**: In many cases, objects are used, can be defective. Buyers can avoid payment, sellers can avoid shipping.

- **Limited Participation**: If there is not enough participation, objects will sell for less.

- **Order Fulfillment Cost**

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IMPACTS OF AUCTIONS

- Auctions as a coordination mechanism
- Setting prices based on supply, demand, and participant’s requirements
- Auctions as a social mechanism to determine a price
- Find existing and closed auctions can help determine a price
- Auctions as a highly visible distribution mechanism
FRAUDS

- **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.
FRAUDS

☐ FAKE PHOTOS AND MISLEADING DESCRIPTIONS

☐ IMPROPER GRADING TECHNIQUES

☐ BID SIPHONING

☐ SELLING REPRODUCTIONS AS ORIGINALS

☐ FAILURE TO PAY

☐ FAILURE TO PAY THE AUCTION HOUSE
FRAUDS

- High Shipping Costs and Handling Fees
- Failure to Ship Merchandise
- Loss and Damage Claims
- Switch and Return
- Other Frauds
PROTECTING FROM FRAUDS

- The auction site can introduce several measures in effort to reduce fraud
  - User identity verification
  - Feedback forum
  - Insurance policy
  - Nonpayment punishment
EBAY ANTI-FRAUD

eBay's antifraud effort will include a program for user identity verification, a ban on sellers buying their own items, up to $200 in insurance, a policy against "deadbeat bidders," and a feedback forum akin to a Better Business Bureau center.

Changes in 100 categories include limits on the number of items sellers can sell and a ban on using one- or three-day auctions, a favorite of scammers, eBay said. The site also imposed geographical restrictions, such as preventing sellers in piracy-rich China and Hong Kong from listing in 100 categories at all.

The first UK seller to be prosecuted for artificially inflating prices by bidding on his own eBay auctions has been told to pay £5,000 in fines and costs, and ordered to do 250 hours community service.

Internet auctioneer eBay introduced five initiatives today in an effort to reduce fraud, stop the sale of illegal materials, and stymie those who try to misuse the site's person-to-person trading system.

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MOBILE AUCTIONS

- **Benefits**
  - Convenience and Ubiquity
  - Privacy
  - Simpler and Faster

- **Limitations**
  - Visual Quality
  - Memory Capacity
  - Security
SUMMARY

- Introduction to Auctions and Online Auctions
- Types of Auctions
- Phases of an Auction
- Benefits and Limites of E-Auctions
- Frauds