



Auction systems

Submitted to

Prof. Dr. Eduard Heindl

By

Yeleswarapu Vidyullatha

Matriculation No: 229874

BCM SS08

May 28, 2008

Declaration

It is to be declared that all the work done in this document is solely and explicitly by the author of this document.

The list of literatures, whose text has been adapted, is mentioned in the document with reference

Vidyullatha Yeleswarapu

28 May 2008

Contents

1. Introduction.....	5
2. History.....	5
3. Definition	5
4. Segments in Auctions	6
4.1 Consumer to consumer	6
4.2 Business to consumer	6
4.3 Business to business	6
5. Types of Auctions.....	6
5.1 English auction	7
5.2 Dutch auction.....	7
5.3 First-price sealed-bid auction	7
5.4 Second-price sealed-bid auction	8
5.5 Double auctions	8
5.6 Yankee auctions.....	8
5.7 Reverse auctions	8
6. Auction process.....	8
6.1 Initial buyer and seller registration.....	9
6.2 Setting up a particular auction event	9
6.3 Scheduling and advertising.....	9
6.4 Bidding	9
6.5 Evaluation of the bids and closing the auction	9
6.6 Trade settlement	9
7. Process flow model.....	9
8. Bidding strategies.....	11
8.1 The naïve strategy.....	11
8.2 The mimicking strategy	12
8.3 Multiproduct strategies	12
8.4 English auction strategies	12
8.5 Sealed-bid auction strategies	12
9. Tips for buyers	13
9.1 Before bidding	13

9.2	When bidding	14
9.3	Before paying	14
10.	Tips for the sellers	15
10.1	Know the legal obligation.....	15
10.2	Advertising the product.....	15
10.3	Dealing with bidders	16
10.4	Arranging for payment.....	16
10.5	Look out for fraudulent checks or money orders.....	16
11.	Frauds for the buyers to avoid.....	17
12.	Frauds for sellers to avoid	19
13.	Controlling the risks	21
14.	Conclusion.....	22

1. Introduction

Live auctions have been held for thousands of years. At that time the auctions were generally held at a single location. One or more companies or families consigned merchandise to be sold and the merchandise was auctioned one item at a time. The auctioneer received a portion of the sale as his payment. Now with the advent of the Internet, a new generation of auctions for the masses is taking form. The internet auctions got started in the mid of 1990s and is revving up to full power and at breakneck speed. By the late 1990s a single auction site stepped out and began to lead the pack. That site is eBay. Although eBay is not the only auction site on the Net, it is by far became the most successful site in Internet auctions.

2. History

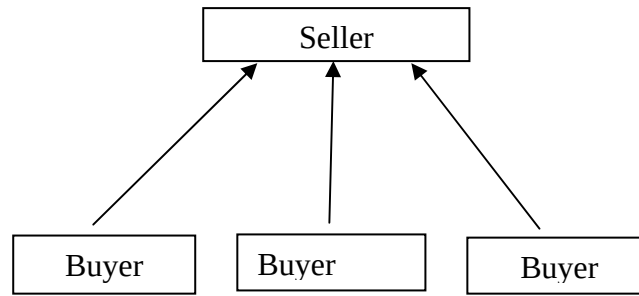
The history of auctions extends back to 500 B.C. when Herodotus reported the use of an auction. These auctions were for the purpose of selling woman under the condition that they be married following purchase. Reports indicate that less attractive woman was sold with monetary compensation given to the bidder. Whether or not these auctions were ascending or descending bid auctions was not recorded.

The Roman Empire used auctions to liquidate property and estate goods. The mechanism implemented was referred to as the “atrium auctionarium”. It is not known whether or not these auctions were ascending or descending bid auctions, but the name used for the market mechanism would lead one to deduce that the auctions were ascending. The word “actus” in Latin means increasing, and since it is incorporated into the name of the market it is assumed that bids were made in an increasing fashion.

Within the Roman Empire the “atrium auctionarium” was also used by the soldiers to sell goods acquired. Probably the most bizarre account of early auctions concerns the year 193 A.D. when the entire Roman Empire was put on the auction block after being sacked. Aside from the earlier accounts of the Roman auctions, there also exists evidence of Buddhist monks in China using auctions to fund the creation of temples, as it became customary to auction off the property of deceased monks for this purpose.

3. Definition

An auction is the process of buying and selling things by offering them up for bid, taking bids, and then selling the items to the highest bidder.



4. Segments in Auctions

There are three segments in auctions they are:

- Consumer to consumer(c2c)
- Business to consumer(b2c)
- Business to business(b2b)

4.1 Consumer to consumer

C2C auctions are open market where anyone can sell anything to anyone at anytime. It's a virtual flea market. eBay is one of the most successful companies in this online auction space.

4.2 Business to consumer

B2C auctions are where businesses sell directly to consumers. Merchants either have a limited supply of a certain product that they put up for auction, or they may put up small amount at a time, replenishing the products from inventory when the original supply is auctioned off. One of the leading companies in this area is uBid.com.

4.3 Business to business

B2B auctions are where businesses sell directly to other business buyers. These are growing fast as more businesses see this sales method as a way to sell both excess and new inventory. One of the leaders in these sectors is dovebid.com.

5. Types of Auctions

There are different types of auctions some of them are:

- English auctions
- Dutch auctions
- First-price sealed-bid auctions
- Second-price sealed-bid auctions

- Double auctions
- Yankee auctions
- Reverse auctions

5.1 English auction

The English auction is also called an ascending auction. It is used at Sotheby's, Christie's, and even eBay, and is most often associated with the selling of art, antiques, and other fine items. English auctions have been held since around 500 B.C. In the English auction, the auctioneer of a good or service begins with a reserve price and either increases the price in regular increments or lets bidder increase the price by whatever increments they want. In the ascending auction, the price is successively raised until only one bidder remains, and that bidder wins the object at the final price. As in the real world, the English auction is by far the most common type of auction on the internet. Amazon and yahoo also use this auction type.

5.2 Dutch auction

The Dutch auction are called descending auction and was invented in the 1870s by a Dutch cauliflower grower, a farmer who wanted to simplify the selling of his product so he could concentrate on his crops. Unlike the more common English auction, the Dutch method starts at a high price level set by the auctioneer. The price then drops progressively, until a buyer signals to the auctioneer that he or she will take the goods at the current price. The auctioneer can announce the prices or may use an auction clock to indicate the current price.

The auction clock tick downwards until a buyer stops it by raising a hand. No actual sequential revelation of bids or preferences is involved. The bidder must choose how high to bid without knowing the other bidder's valuations or interests in the goods. As the announced price is progressively lowered, the buyer may get the goods at a lower price but he could also lose them to another buyer, who may stop the clock first.

5.3 First-price sealed-bid auction

Auctions that utilize written bids are commonly referred to as sealed-bid auctions. Sequencing tends not to be a major issue in these auctions, since each bidder is normally allowed a single bid. Bidders in the first-price sealed-bid auction send in sealed bids to the auctioneer by a fixed time. The highest bidder wins the auction and gets the product or service. A bidder must decide how high to bid of his competitors. In terms of the information revealed, first-price sealed-bid auctions are very similar to Dutch auctions.

5.4 Second-price sealed-bid auction

The second-price sealed-bid or Vickrey auction was named after William Vickrey, Nobel laureate in economics, 1996. In this auction, the winner is the one with the highest bid, but he or she will pay only the second highest price.

All bids are confidential, and the high bid is not disclosed during the auction process. The elegance of Vickrey auction is that it is designed in such a way that “truth telling” that means bidding the true value of the auctioned product and it is the best bidding strategy.

5.5 Double auctions

In a double auction, buyers and sellers each submit bids consisting of both a price and a desired quantity to an auctioneer. The auctioneer matches the sellers’ offers to the buyers’ offers until all the quantities offered for sale are sold to the buyers. This type of auction works only for items that are traded in large quantities and are known of quality, such as securities or graded agricultural products.

5.6 Yankee auctions

In an Yankee auction, identical items are offered simultaneously for sale. When the auction closes the highest bidders wins. This auction is especially suited to selling large amounts of moderately priced items in small lot sizes.

5.7 Reverse auctions

Reverse auctions are those where buyers post their need for a product or a service, then suppliers bid to fulfill that need. Unlike an auction, reverse auction prices move only down.

That means here the bidder is seller not the buyer. The bid reflects how much the buyer is being asked to pay, not how much the good or service is being sold for

6. Auction process

The auction process consists of six steps they are:

- Initial buyer and seller registration
- Setting up a particular auction event
- Scheduling and advertising
- Bidding
- Evaluation of the bids and closing the auction
- Trade settlement

6.1 Initial buyer and seller registration

This step deals with the issues relating to authentication of trading parties, exchange of cryptography keys, and perhaps creation of a profile for each trader and reflects his interest in products of different kinds and possibly his authorized spending limits.

6.2 Setting up a particular auction event

This step deals with describing the item being sold and setting up the rules for auction. The auction rules explain the type of the auction being conducted (English, Dutch), parameters negotiated (price, delivery dates, terms of payment etc), starting date and time of the auction, auction closing rules, etc.

6.3 Scheduling and advertising

To attract potential buyers, items of the same category should be auctioned together at a regular schedule. Popular auctions can be mixed with the less popular ones to force people to be present in the less popular auctions. Items to be auctioned in the upcoming auctions are advertised, and potential buyers are notified in this step.

6.4 Bidding

The bidding step handles the collection of bids from the buyers and implements the bid control rules of the auction and for open cry auctions notifies the participants when new high bids are submitted.

6.5 Evaluation of the bids and closing the auction

This step implements the auction closing rules and notifies the winners and losers of the auction.

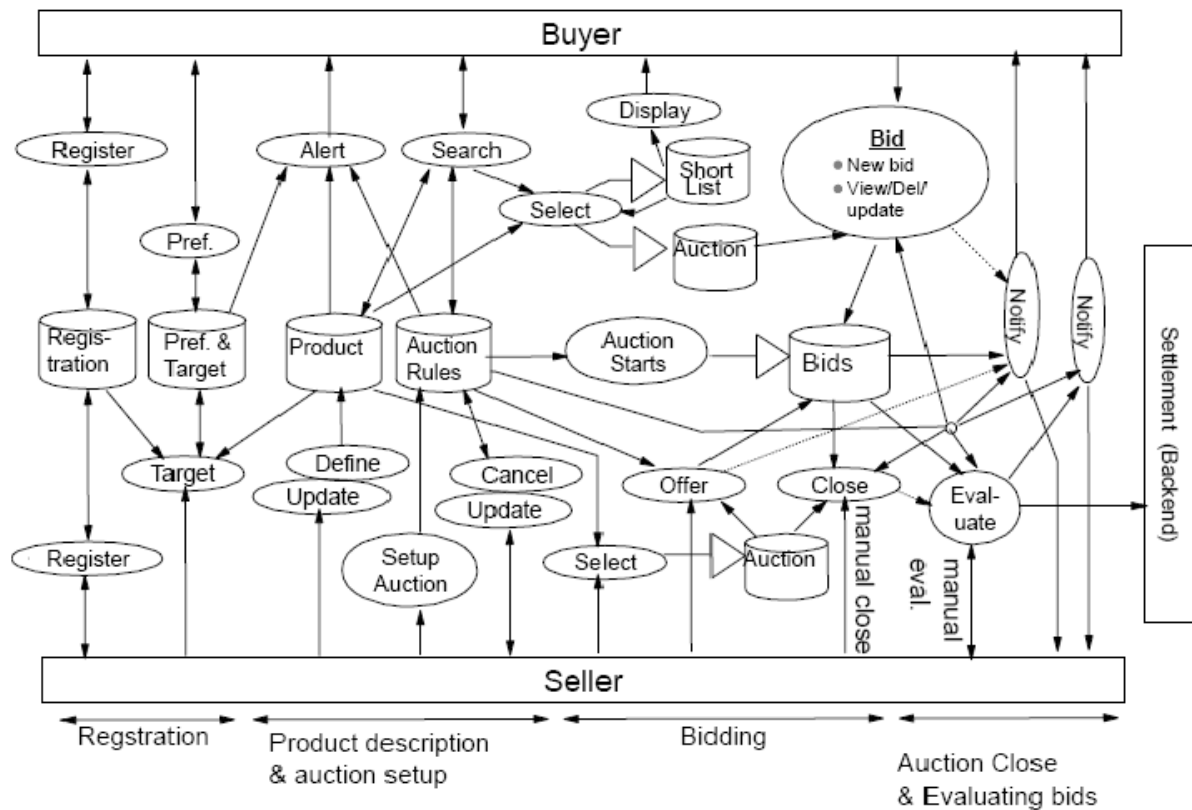
6.6 Trade settlement

This final step handles the payment to the seller, the transfer of the goods to the buyer, and if the seller is not the auctioneer, payment of the fees to the auctioneer and other agents.

7. Process flow model

In the following process flow diagram the three rectangles (buyers, sellers, and settlement system) are the active producers or consumers of information at the boundary of data flow graph. The disk symbols are information repositories internal to the data flow model. Ovals

represent processes, solid arrows represent flow of information, and dashed arrows represent control signals. A hollow triangle at the end of a line indicates a repository created by a process, some of which can be temporary. As shown in the figure, buyers and sellers can register themselves to create trader objectives.



Additionally buyers register their preferences through the preference process and sellers can use this information to create target lists to promote a product or class of product to buyers in a target list. The sellers use the define/update process to create a description of the product being auctioned and use the setup auction process to describe the type of auction and various rules that go along with it. If the auction rules permit they can cancel the auction or update some of its parameters such as closing time.

The alert process notifies a buyer when a product is placed on an auction that matches his preference or if the auction rules or product information changes for such products. The search process provides various search metaphors to help the buyer find/select an auction. The selected auction can either be entered in a list of interesting auctions or the buyer can proceed to bid on it. In the latter case notifications may be sent to bidders whose bids are superseded.

The seller can also select an auction and in case of Dutch auction, use the offer process to change the asking price. This again results in notifications being sent to people who are participating in Dutch auction. Finally the close (auction) process closes the auction automatically based on the auction rules, but supports manual closing by the seller.

When an auction is closed, all the bids submitted for that auction are evaluated and the winners and losers are notified (Dutch auctions, by definition have winners only). Shipping

and payment instructions pertaining to each winning bid are sent to the back-end ERP system for final settlement.

Each buyer can maintain a list of auctions that are of interest. This list is maintained at the auction server. The auctions in which a buyer participates are added automatically to the short list. The buyers select auctions from the list or through the search processes provided and submit bids for auctions in progress.

In auctions of multiple items, buyers are allowed to submit multiple bids. Depending on the cutoff price for winning bids, and the cutoff time for bids sharing the cutoff price, all, some or none of them could be the winning bids.

The buyers can review the bids they have submitted and increase/modify the bids. In open cry and Dutch auctions the buyers can review the bids submitted by other bidders. The auction rules repository fundamentally drives the auction application. It includes the schedule for the auctions, templates for creating the popular kinds of auctions, and the rules governing individual auctions. Different product in the product repository can be auctioned using different auction types and policies.

8. Bidding strategies

Bidding process in the English auction and other traditional auctions are set by well established rules specifying the number of bids bidders may enter the sequence of the bids, and the order of allocating auctioned lots to buyers. As procedural rules and auction types vary widely, there are a number of strategies for bidding effectively in auctions.

Some of the strategies are:

- The naïve strategy
- The mimicking strategy
- Multi product strategies
- English auction strategies
- Sealed-bid auction strategies.

8.1 The naïve strategy

In naïve strategy, a bidder is desperate to win bids up an item's price beyond its true value. Naïve bidders often act as if they do not have a clear idea of the market value of the goods. Instead they bid to win.

A more rational bidder would gather information and prices on comparable products use this information to estimate a private value, and bid in a way that does not exceed the bidder's private value or the common value of the good. However, in many cases it may be difficult to

estimate a reasonable private value especially for one of kind goods, or when the price cannot be determined due to lack of critical information.

8.2 The mimicking strategy

In this strategy the bidder may adopt the riskier strategy of mimicking a “reputable” bidder. In this strategy, one carefully selects a bidder with a reputation as an unusually savvy estimator and simply mimics his bidding behavior. Just before an auction ends, the “mimicker” outbids his mentor and wins. Of course this strategy is possible only when the identities of bidder are known. Although this is not often the case, sometimes the seller will reveal the identities of the buyers to bring the competition to a boil.

8.3 Multiproduct strategies

In multiproduct strategy when multiple products are sold through auctions, bidding often becomes even more complicated. When buyers have presold some of their products to wholesalers, for example, they must either meet the “book” or potentially lose face with their clients. In order to fill a book, bidders may have to exceed their private valuations on some products, subsidizing those losses with earning on other items.

Industrial buyers may also complicate such bidding strategies by having confidential information about the private valuations of the nonparticipants. Instead of relying on their own private valuations, then, they will bid the private valuations of those to whom they can subsequently resell the goods, minus a profit for themselves.

8.4 English auction strategies

As the English auction allows the bidders to reveal their preferences sequentially, the effective bidding strategy for the winner is to add a small increment to prior bids until there are no more competing bids. In this case the surplus to the winner is the difference between their private value for the item auctioned and the price of the winning bid. In some circumstances, it may be beneficial in an English auction to use a “jump bidding” strategy. That means instead of adding a small increment to a prior bid, one add a large increment. The intent is to scare away the other bidders.

8.5 Sealed-bid auction strategies

Sealed-bid first-price (or second-price) auctions, on the other hand, are not sequential. In these cases, because so little information is revealed in the auction prices, economists have shown that the best strategy for every bidder is to bid close to their private value.

In a second-price or Vickrey auction, the winning bidder is the one who bids the highest price, but the winning price is that offered by the second-highest bidder. Thus the highest bidder

pays the second-highest bid. The optimal strategy for bidders in this auction is to reveal their private value.

9. Tips for buyers

9.1 Before bidding

- The buyers must first become familiar with the auction site. They should not assume that the rules of one auction site apply to another. If the site provides a step by step bidding process, follow it. It may save the frustration and disappointment later.
- Find out what protection the auction site offers buyers. Some sites provide free insurance or guarantees for items that are not delivered, not authentic, or not what the seller claims. The buyer should know exactly what they're bidding on. Read the seller's description of the item or service, and if a photograph is posted, look at it. Look for words like "refurbished," "close out," "discontinued," or "off-brand" especially when shopping for computer or electronic equipment to get a better idea of the condition of the item. Sometimes this information and other important terms are in a contract that may be found by following a hyperlink in the listing to the seller's online store.
- The buyer should try to determine the relative value of an item before he bids. The buyer should be skeptical if the price sounds too low to be realistic. Price comparison sites may be good for reality checks.
- Find out all about the seller. Avoid doing business with sellers that can't identify, especially those who try to lure the buyer off the auction site with promises of a better deal. Don't trust emails alone. Some fraudulent sellers may use forged email headers that make follow-up difficult. Get the seller's telephone number as another way to get in touch. Dial the number to confirm that it is correct. Some auction sites post feedback ratings of sellers based on comments by other buyers. Check them out. These comments and ratings may give you some idea of how the buyers will be treated. In other cases, a seller may build up his reputation by selling many low cost items before making fraudulent sales of higher cost items.
- Consider whether the item comes with a warranty, and whether follow-up service is available if you need it. Many sellers don't have the expertise or facilities to provide services for the goods they sell. If this is the case with the seller, then the buyer should be willing to forfeit that protection before placing a bid.

- Find out who pays for shipping and delivery. Generally, sellers specify the cost of shipping and give buyers the option for express delivery at an additional cost. If buyers are uncertain about shipping costs, the buyer should check the seller before he bids.
- Check on the seller's return policy. Sometimes the return policy is found in the listing, but other times the buyer has to access it by following a hyperlink in the listing to the seller's online store.
- If the buyer has any questions he should email or call the seller. The buyer should not place any bids until he gets straight and satisfactory answers.

9.2 When bidding

- Establish a top price and stick to it. This helps the buyer to ensure that he can get a fair price and protect himself from "shill bidding." The buyer should not bid on an item that he can't intend to buy. If the buyer is the highest bidder, he is obligated to follow through with the transaction.
- Save all transaction information. Print the seller's identification, the item description, and the time, date, and price of the bid. The buyer should keep every transaction safely with him and save every email that he sends and receives from the auction company or the seller.

9.3 Before paying

- Protect your identity. The buyer should not provide any Social Security number or driver's license number or his credit card number or bank account information until he checks out the seller and the online payment or escrow service, if he is using one, and ensure their legitimacy. Examine the online payment and escrow service's privacy policy and security measures. Never disclose financial or personal information unless the buyer knows why it's being collected, how it will be used, and how it will be safeguarded.
- Protect your funds. Know what form of payment the seller accepts. If the seller accepts only cashier's checks or money orders, the buyer should decide whether he is willing to risk sending the payment before he receives the product. "Never wire money to a person you don't know or whose identity you can't verify".

10. Tips for the sellers

10.1 Know the legal obligation

- Under federal law, the sellers are required to advertise the product or service and the terms of the sale honestly and accurately. They can't place "shill" bids on the item to boost the price or offer false testimonials about him in the comment section of Internet auction sites.
- The sellers are prohibited from auctioning illegal goods. While many auction sites monitor to ensure that illegal items are not being offered, the responsibility for ensuring that a sale is legal rests with the seller and buyer. Some auction sites post a list of prohibited items.
- The sellers are required to ship merchandise within the time frame specified during the auction, or within 30 days, if a time frame is not specified. If they can't meet the shipping commitment, he must give the buyer an opportunity to agree to the new shipping date or cancel the order for a full refund.

10.2 Advertising the product

- When describing the item and its condition, state whether it's new, used, or reconditioned.
- The buyers might have anticipated questions and address them in the description of the item or service.
- When possible, include a photograph of the item. There's much truth to the saying that "a picture is worth a thousand words."
- The seller should specify the minimum bid that he is willing to accept.
- The seller should specify who will pay for shipping, and whether he ships internationally.
- State the return policy, including who's responsible for paying shipping costs or restocking fees if the item is returned.
- Let prospective bidders know whether the seller provides follow-up service, if he don't, tell them where they can get it.

10.3 Dealing with bidders

- Respond as quickly as possible to bidders' questions about the item auctioning or the terms of the sale.
- When the auction closes, print all information about the transaction, including the buyer's identification; a description of the item; and the date, time, and price of the bid. The seller should save a copy of every email he sends and receives from the auction site or the successful bidder.
- Contact the successful buyer as soon after the auction closes as possible; confirm the final cost, including shipping charges, and tell the buyer where to send payment.

10.4 Arranging for payment

- If the seller accepts credit card payments from the buyer directly, bill the credit card account only after he ships the product.
- If a buyer insists on using a particular escrow or online payment service that the seller never heard of, check it out by visiting its website or calling its customer service line. If there isn't one, or if the seller calls and can't reach someone, don't use the service. If the service claims to be affiliated with a government agency, that's a sign of a scam.
- Before agreeing to use an online payment or escrow service, read the terms of agreement. If it's an online payment service, find out who pays for credit card charge backs or transaction reversal requests if the buyer seeks them.
- Examine the service's privacy policy and security measures. Never disclose financial or personal information unless the seller knows why it's being collected, how it will be used, and how it will be safeguarded.
- Don't use an online escrow service that does not process its own transactions, but that requires you to set up accounts with online payment services. Legitimate escrow services never do this.
- Check with the Better Business Bureau, state attorney general or consumer protection agency where the online payment or escrow service is based to see whether any unresolved complaints are on file against the service. But remember that a lack of complaints doesn't guarantee that the service has no problems.

10.5 Look out for fraudulent checks or money orders

- Sometimes, the bank may not alert the seller that a fake check or money order has been returned until after he has shipped the merchandise. If the seller is suspicious about a check because it is written by a third party or for any other reason, call the person who wrote the check to verify that they have authorized it. If the seller receives a check or money order for an amount that exceeds the successful bid, and the buyer asks to wire the excess funds back to him or to a third party, do not wire the money. Instead, return the check to the buyer, and do not ship the merchandise.

- If the seller accepts payment by check, ask for a check drawn on a local bank, or a bank with a local branch. That way, the seller can make a personal visit to make sure the check is valid. If that's not possible, call the bank the check was drawn from and ask if it is valid. Get the bank's phone number from directory assistance or an Internet site that the seller knows and trust, not from the person who gave the check.

11. Frauds for the buyers to avoid

Most internet auctions sellers are honest. However, you have got to watch out for the few swindlers whose main goal is to cheat you out of your hard-earned cash. So here's a list of top ten frauds that buyers should watch out for.

Shilling

In this scam, a seller works with a coconspirator to get the most out of the proxy bid. For example, suppose the buyer place a 100 euro bid on an item whose current high bid is at 35 euro. If no one else bids on this item, the buyer would win it for 35 euro. However if the seller suspects that the buyer have placed a higher (proxy) bid then he will have his coconspirator bid up the price little by little until he outbids the limit. Then the coconspirator will retract his last bid making the bid of 100 euro the high bid. Then the buyer had 65 euro stolen out of the pocket. If the bidder sees the proxy bid is going up and up until he is outbid then suspect shilling. If there's time before the end of auction, the buyer may also retract the own bid.

Internet pickpockets

When an auction ends and if the buyer is the winning bid, the buyer will typically get an e-mail from the seller telling how he can pay. Some sly criminals have come up with the idea to beat the legitimate seller to the punch and send the buyer a fake message telling the buyer to send the money to them instead. If the buyer send the cash or money order to the wrong person, it may be hard to get the money back. Look at the return e-mail address from the seller to make sure it isn't from some other person trying to pull a fast one on the buyer.

In this version of bid inflation, a buyer has one or two other accomplices try to begin a bidding war. If the buyer finds a willing participant, he and his accomplices will continue to escalate the price until the legitimate buyer no longer raises his bid. Then the fake bidders will retract their high bids leaving the legitimate buyer as the high bidder.

Counterfeit feedback

It's fairly easy for a group chums to give each other positive feedback to build up reputations. While the buyer is examining a seller's feedback, look to see if those leaving positive feedback are all from the same e-mail host. This is a clue that the feedback may have been faked. If a seller is faking his feedback, then he's likely up to no good with what he is selling.

Misrepresented merchandise

Many collectibles are valued according to their condition. If an item contains damage, it can severely decrease its value. Honest sellers will describe damage in detail and may even include pictures of the damage within the ad. The buyer should keep a copy of the auction ad, including pictures, to compare what he receives. If the merchandise includes damage that was not described, then the buyer should ask for a refund.

Dutch auction bid inflation

Dutch auctions are a little hard to understand and some sellers use this to their advantage. Suppose the buyer bid 15 euro in a Dutch auction and end up being one of the several winners. The lowest winning bid on the auction is 12 euro. However, the seller sends to the buyer a notice telling that he won the auction for 15 euro. He's trying to get an extra 3 euro of the money. In a Dutch auction every winner pays the same amount that is the lowest winning bid.

Imitations and incorrect grading

Watch out for fakes in every type of merchandise - coins, art, toys and so on. The most common frauds the buyer will see are reproductions being sold as the real thing, altered merchandise, incorrectly graded collectibles. For example, a rare coin that is reported to be an MS- 70 grade when it's actually an MS- 65 can be overvalued by hundreds of euro. However, grading is usually subjective, dishonest sellers will tend to inflate the value of their merchandise by over grading it. So always look for some reliable source that can help the buyer prove what he is purchasing is real. If the buyer have no proof, then he must base the belief on the honesty of the seller.

A wolf in sheep's clothing

The pictured looked good and the ad was appealing but when the merchandise arrives it's not what the buyer thought it would be. Some unscrupulous sellers will put a picture of a branded-new item in their auction ad and they are actually selling is used. These sellers realize that most people will not bother to return merchandise even if they are dissatisfied with it. However, if the buyer feel that he had been sent fraudulent merchandise he should contact the seller for a refund. If he will not cooperate, the buyer should report the incident to the auctions security and consider leaving negative feedback for the seller.

Vaporware products

In this scheme the seller never really has possession of the item he's advertising for sale. Typically he will be holding an auction for some very popular item such as latest and hottest Christmas toy. Bidders are too excited about getting the product to notice that the seller has no track record. The buyer sends the money and gets nothing in return. When the buyer try to contact the seller he find that the seller has a very low negative feedback score, he's no longer at his stated location, and he lefts no forwarding address.

Creative shipping charges

Before the buyer bid on any auction, pay close attention to shipping and handling charges. Sometimes these charges can be greater than the value of the merchandise itself. Honest sellers will quote a flat price for delivery or at least a price range. If the seller doesn't specify the shipping charges, the buyer may wind up being billed for postage, box, packing materials, labor and so on. If the buyer thinks that he is being overcharged for postage and handling, try to negotiate the shipping charges to postage only.

12. Frauds for sellers to avoid

Buyers are not only the victims in internet auctions. Just like that sellers need to protect themselves against sneaky criminals who try to defraud them out of their profits. Here's the list of the frauds that the sellers should watch out.

Switch and return

A buyer returns an item to you claiming dissatisfaction and wanting a refund. However the item returned is not exact item the seller sent to the buyer. The returned item might be a similar product with damage and if the seller has no way of identifying the returned item, the seller will have a hard time justifying not providing a refund. So the seller must always keep photos and records of every item they sell.

Bid protection

This scam requires three players. One person will place a low bid on an item and will be quickly followed by two partners who place large bids on the item. The seller get excited because the auction is about to take more money than he could have imagined. Then, just seconds before the auction ends, the high bidders retract their bids, leaving the old low bid as the new high bid. The auction ends and the seller is stuck having to sell the item for a very low winning bid.

Stopped payments

It's always wise to wait until a buyer's check clears before sending out his merchandise. Otherwise, the buyer can cancel his check, leaving the seller with no payment. Or, the check could be bogus. In either case the seller is likely to never see the money.

Credit card fraud

In the exuberance to accept credit cards, always remember that they are not like the money in the bank. You should always call the credit card provider to verify purchases before the seller send out merchandise. If the seller wait for a few days and check the card only after he had sent out the merchandise, then he had set himself up a problem if the credit card is no good or stolen. Another potential problem to be aware of is that unhappy buyers have the ability to

cancel a charge. Check with the agreement to see what remedies and responsibilities are if this happens.

Purloined packages

What happens when a buyer calls up a week after the seller has sent off her/his item and she/he says he/she never received it? The seller is in a pickle if he don't have any proof of that sent merchandise. Some sellers insist that anything over a certain value (such as 50 euro) be sent with insurance that requires a signature. When the package requires the signature of the buyer before taking the delivery, then the seller have proof that the merchandise arrived.

Used and returned

Beware of selling the products that can be copied and used, then returned, CDs (music and software) and some videos can be copied. Some tickets, phone cards and other cards with information on a magnetic strip can be used and then returned either with a claim that they were not used or with a claim that they didn't contain what he promised. Sometimes these cards have serial numbers on them. If the seller thinks that he sold a legitimate card that was used and returned, he might be able to get the issuing company to give the records of when the card was last used.

The hurry-up ploy

If the seller sells a dated item, he must be beware of the buyer who must have it immediately. Suppose the high bidder is purchasing a ticket, and he's leaving town in just four days. There may not be time for the seller to receive his payment and then send him the tickets. The buyer may ask the seller "can't you please just send it today? " And he promises that the seller payment is in the mail. So don't be caught up in someone else's time troubles. Stick with the standard business model and don't be drawn into the hurry-up trap.

Extortion

It sounds bizarre but some buyers will threaten the seller to try to make the sell the item at a certain price or under certain conditions. If the seller don't do as they say, they will make sure the seller to get ten negative feedbacks (or something just as obnoxious). If the seller gets the message like this, the seller should keep a copy of the e-mail he received and send it to the internet auction's security personnel. Users caught making threats of this nature will often be immediately suspended from further participation in the auction site.

Bid siphoning

This is the process that unscrupulous sellers use to make money from the customers of the other sellers. They contact people bidding on the item and offer to sell a similar item to them at a price lower than the current bid. The seller may never know about this unless an honest buyer makes the aware of it. If this happens, the seller must get as much evidence as he can and send it to the internet auction security personnel.

Vanishing buyers

Because there are so many new people entering the internet auction market, sellers go to run into a few that don't really have a clue that bidding is a commitment. The bidders bid without thinking and then when they win, they panic. Instead of trying to work it out with the seller, they will simply become invisible. They won't answer e-mail. In fact, with e-mail accounts being free and easy to get, they will probably change their e-mail account and the seller will never hear from them again.

13. Controlling the risks

Business is inherently risky. It constantly requires attention. Those who pay attention to the details of business can lower their risks and keep their profits growing. There is no fail-safe formula to get success in the business but we can take some measures to reduce risks and achieve success. Some of the measures we should take in internet auctions are:

Know the marketplace

Internet auctions are a new and evolving phenomenon. So we must continuously watch the market place to determine how ongoing changes will affect the chances for success.

Understand the buyer's desires and motives

Know the customers. The most successful sellers are usually those who concentrate on a single niche. They know their merchandise well and know who wants to buy it. This gives them the ability to write meaningful and enticing ads, keep customers happy and coming back for more, and reduce returns and complaints.

Keep fresh and enthusiastic

Internet auction purchases are usually for fun items, not the necessities of life. Therefore, keep the auctions upbeat and entertaining. Keep the e-mails lighthearted and make the customer feel comfortable working with you.

Pay attention to details

Run the business. "Never let your businesses run you". Have procedures and strategies defined, in place and ready to use for every type of situation that we can think of. That way the day-to-day operation of the business can be made routine, using the creativity and energies for growth.

Persevere

Business is a competition and those who put up more auctions, sell better quality merchandise, create more enticing ads, and treat customers better than anyone else will be the winners. Many now-successful businesses began as small enterprises that were constantly pushed forward by the energy and vision of one person.

14. **Conclusion**

- Keep a watchful eye on the internet auction marketplace
- Beware of criminals who are out to make a quick buck
- Continue to research other auctions to see what's selling and what's not
- Hang out in chat rooms and learn about how to avoid new scams
- Control the risks by operating the business with honesty and good judgment

References

Applying E-commerce in Business by Rana Tassabehji

Getting started in Internet Auctions by Allanc

Making Markets by kambil Vanheck

E-marketing Strategies by Illick, Frank Fiore

www.econport.org

Internet Auctions A Guide for Buyers and Sellers by FTC

Internet Auctions article by Manoj Kumar , Stuart I. Feldman