

A woman with long dark hair, wearing an orange knitted sweater and an orange bow headband, is looking down at a white smartphone. The background is a solid light blue.

The Online Auction Concept: Saving Buyers' Time and Boosting Sellers' Profit

Introduction

According to the Corporate Finance Institute, the origin of auctions dates as far back as 500 BC in ancient Greece, where women were auctioned as brides. However, in more recent times, auctions have moved away from less unsavoury purposes to becoming a useful commercial tool. The internet has also made auctions more accessible to a larger number of participants, thus increasing the size of the marketplace.

An online auction (also known as an e-auction) is a form of electronic commerce where buyers bid their choice amounts on an item placed on sale by the seller and complete all other transactions that follow.

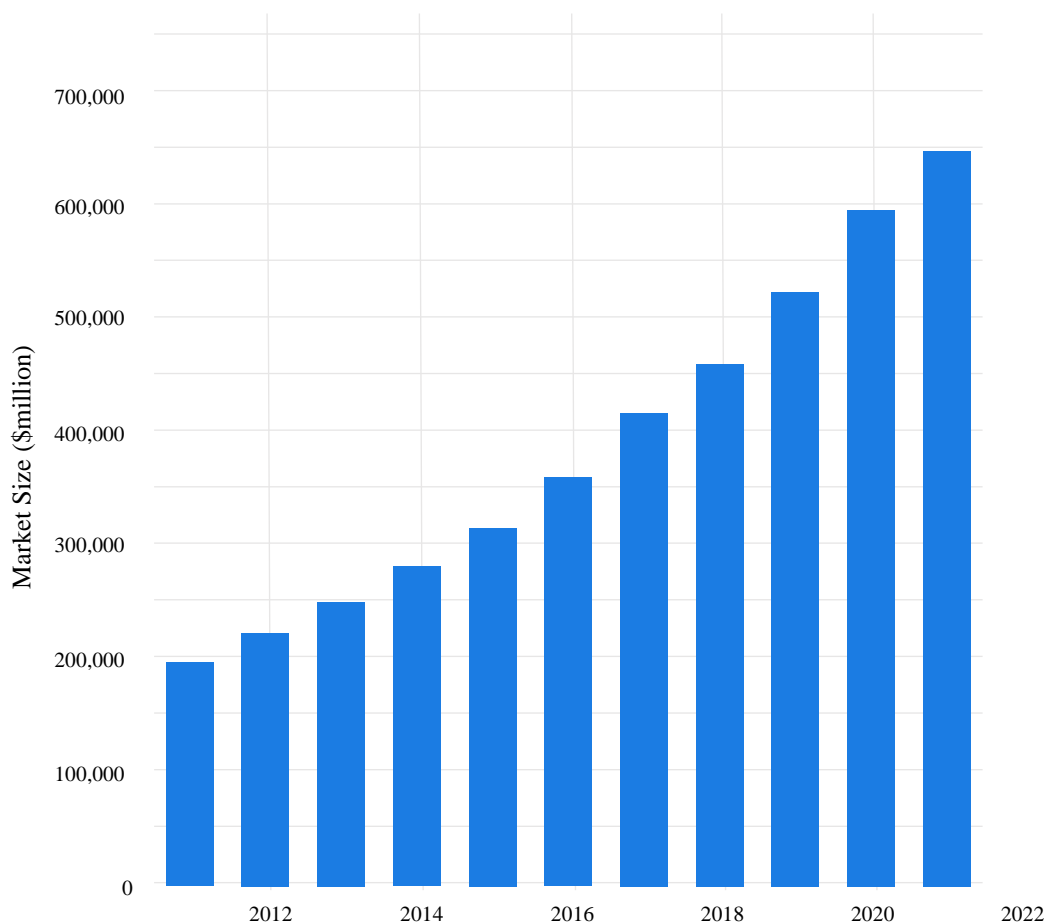
Prices in e-auctions are determined dynamically by the bids placed by buyers.

In 1985, eBay was launched, popularising the online auction concept. The world of auctions saw a shift: transactions started moving from darkrooms to auction platforms online. Today, eBay leads the online auction industry and grosses \$27.5 billion quarterly, serving 187 million active customers.



The Move To E-auctions

While traditional auctions still exist to date, the volume traded is significantly larger on e-auction sites as traditional auctions have several limitations. In the United States market alone, a report from Ibis World Industry Statistics shows that the e-commerce and online auctions industry, as of 2021, is worth \$645.2 billion – growing at a 12.1% rate per year (on average) between 2016 and 2021 – and with the capacity to see greater rise in the next several years.



Source: Ibis World Industry Statistics

The B2B e-auction

Business-to-business e-commerce describes transactions that take place between businesses electronically. The B2B e-auction is a tool under the bracket of B2B e-commerce that businesses use in the trading of products or services. The types of transactions that B2B e-auctions encompass are divided into three, based on the number of buyers and sellers:

Sell-side: One Seller To Many Buyers

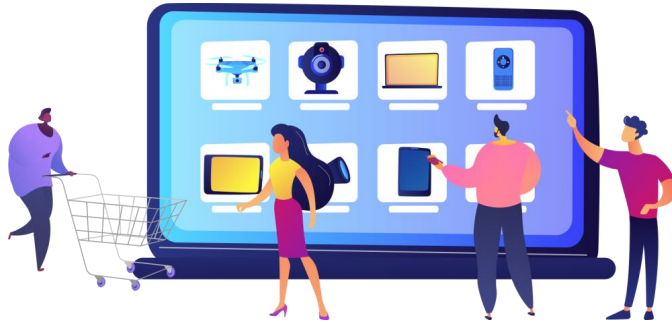


A B2B sell-side e-marketplace is one in which a business sells its products and services to business customers electronically. Many businesses utilize the forward auction concept — an auction where a seller entertains bids from multiple buyers — to liquidate their assets. Here are some benefits of forward auctions to B2B sellers:

- **Higher Profit:** B2B forward auctions command higher prices as sellers get the opportunity to gain information on a buyer's highest willingness to pay. Since auctions are based on dynamic pricing, price is subject to change and sellers can maximize their returns.
- **Increased stickiness:** Potential buyers stay longer on forward auction sites.
- **Faster sales:** The ability to move inventory fast is important to any seller. Forward auctions guarantee a faster movement of inventory as products can be traded in volumes electronically.

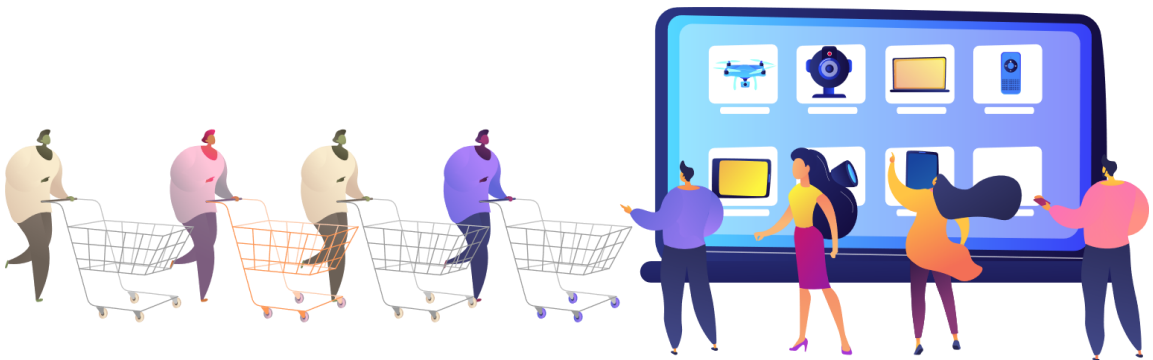
While some companies prefer to conduct their auctions, some seek out an intermediary auction site. Using an intermediary auction site can save companies money, as the intermediary site handles the resources needed for the auctions. An intermediary can also offer to run auctions at a faster pace due to established efficiencies, while stand-alone companies might have to take weeks to prepare.

Buy-side: One buyer from many sellers



For a B2B buy-side e-marketplace, buyers set up their marketplaces and invite sellers to browse through their products and fulfill demands. Some companies use the reverse auction — a type of auction where sellers compete to fulfill orders placed by a buyer.

Marketplaces or exchanges: Many sellers to many buyers



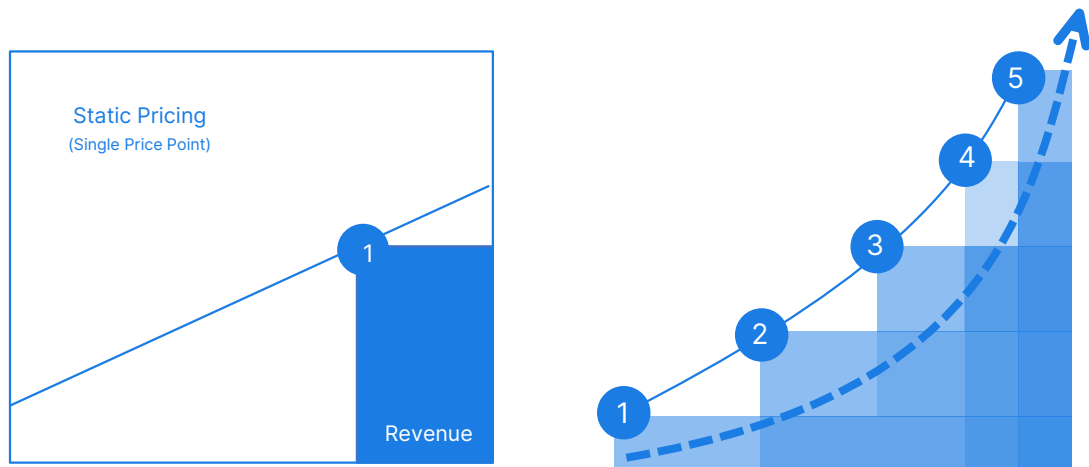
For a B2B exchange, the marketplace involves many potential buyers and many potential sellers. Many exchanges can provide support services such as payments, consulting, etc. Exchanges serve as electronic trading communities for many sellers and buyers. B2B exchanges can match buyers and sellers and facilitate various transactions to provide ease from both sellers and buyers by optimizing the sales and purchase processes. In most exchanges, like Eze's, auctions can take place where buyers and sellers make – and react to – bids in real-time.

How Do Online Auctions Work?

The previous section outlined the history and fundamentals of online auctions. This section will detail the mechanisms behind online auctions to describe how they work.



The Fundamentals Of Dynamic Pricing



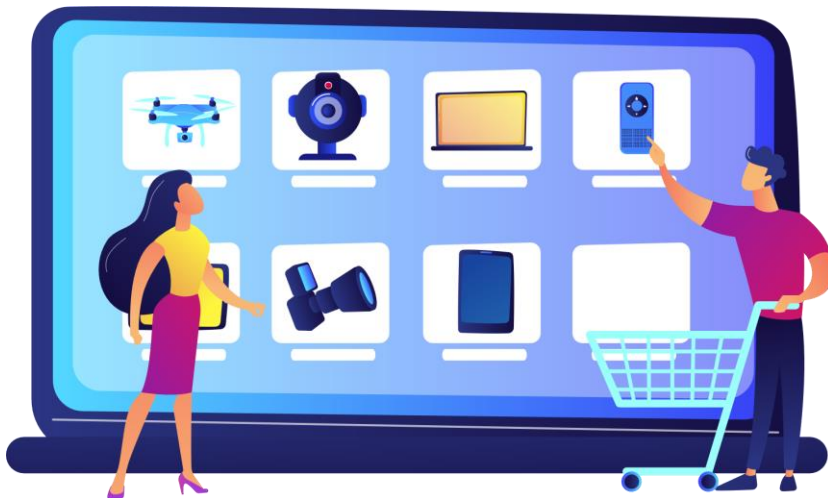
The defining characteristic of an online auction is that it is based on dynamic pricing (a transaction in which price is not fixed) allowing room for more competition. These prices are ever-changing, according to the supply and demand relationships at any given time. This is in contrast to the fixed prices that one would find in department stores, supermarkets, or major storefronts.

That said, in order to respond properly to changes in demand, an increasing number of merchants with both brick-and-mortar and online businesses are progressively taking steps to respond accurately to changes in demand. According to Profitero, Amazon performed over 2.5 million price adjustments every day in 2013. Similarly, in November of the same year, offline retailers like Walmart and Best Buy made 54,633 and 52,956 daily price adjustments, respectively.

Dynamic Pricing And Types Of Online Auctions

Dynamic pricing is usually divided into four categories—One Buyer + One Seller, One Seller + Many Potential Buyers, One Buyer + Many Potential Sellers, and Many Sellers + Many Buyers. Each comes with its own set of objectives and procedures and is associated with a particular category of dynamic pricing.

One buyer, one seller: negotiation, bargaining, or bartering



The first configuration is pretty simple and involves one buyer and one seller. In this instance, the final price of a product will be determined by the bargaining power that each party holds, the demand and supply of the item, as well as business-environment factors. Both the buyer and the seller will resort to negotiation, bargaining, or bartering for the resulting price to be settled upon.

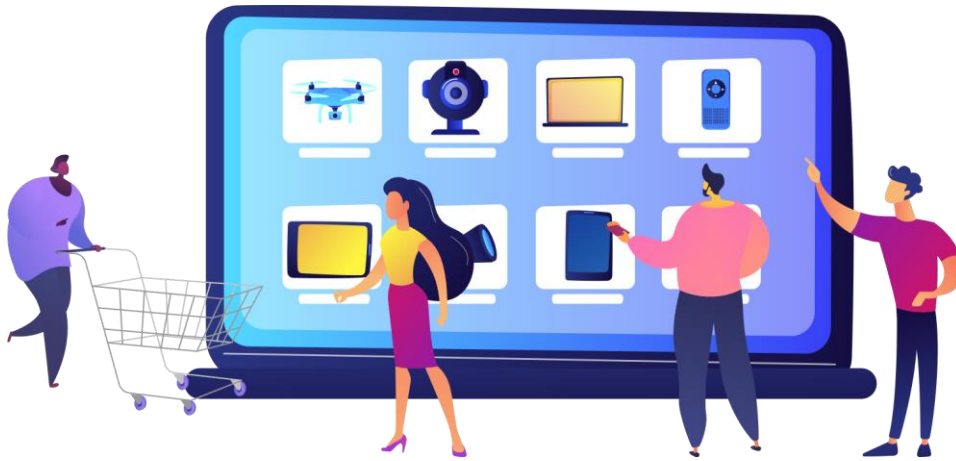
One seller, many potential buyers: forward auction, sealed-bid auction, Vickrey auction



When there's a pool of potential buyers but only one seller, the seller can opt for a forward auction, a sealed-bid auction, or a Vickrey auction.

A forward auction is one in which prices increase with time. For a sealed-bid auction, a bidder can only bid once; it's a silent auction, and bidders are unaware of who places a bid or what the prices are. In Vickrey auctions, the item is awarded to the highest bidder but at the second-highest price that was bid.

One buyer, many potential sellers: reverse auction, name-your-own-price model



When there's only one buyer but many potential sellers, the buyer obtains bids from various sellers or suppliers. In such cases, reverse auctions (one where sellers compete to fulfill orders made by a buyer) take place. Some companies use the reverse auction concept. Governments and large corporations are also frequent users of the reverse auction concept.

On a request for quotation (RFQ) system, the buyer posts an item for bid (tender), possible suppliers bid on the task, with prices decreasing progressively, and the lowest bidder wins.

Reverse auctions are mostly used in B2B and G2B e-commerce.

Alternatively, the buyer can opt for a name-your-own-price model, where the buyer would specify the terms and price they are willing to pay to a seller.

For a B2B buy-side e-marketplace, buyers set up their marketplaces and invite sellers to browse through their products and fulfill demands.

Many sellers, many buyers



The final configuration sees the matching of buyers and their bidding prices with sellers and their asking prices. The match is based on the quantities that are available on both sides. This configuration is typically used in the stocks and commodities markets. As a marketplace for electronics, Eze's fully automated platform relies on this configuration.

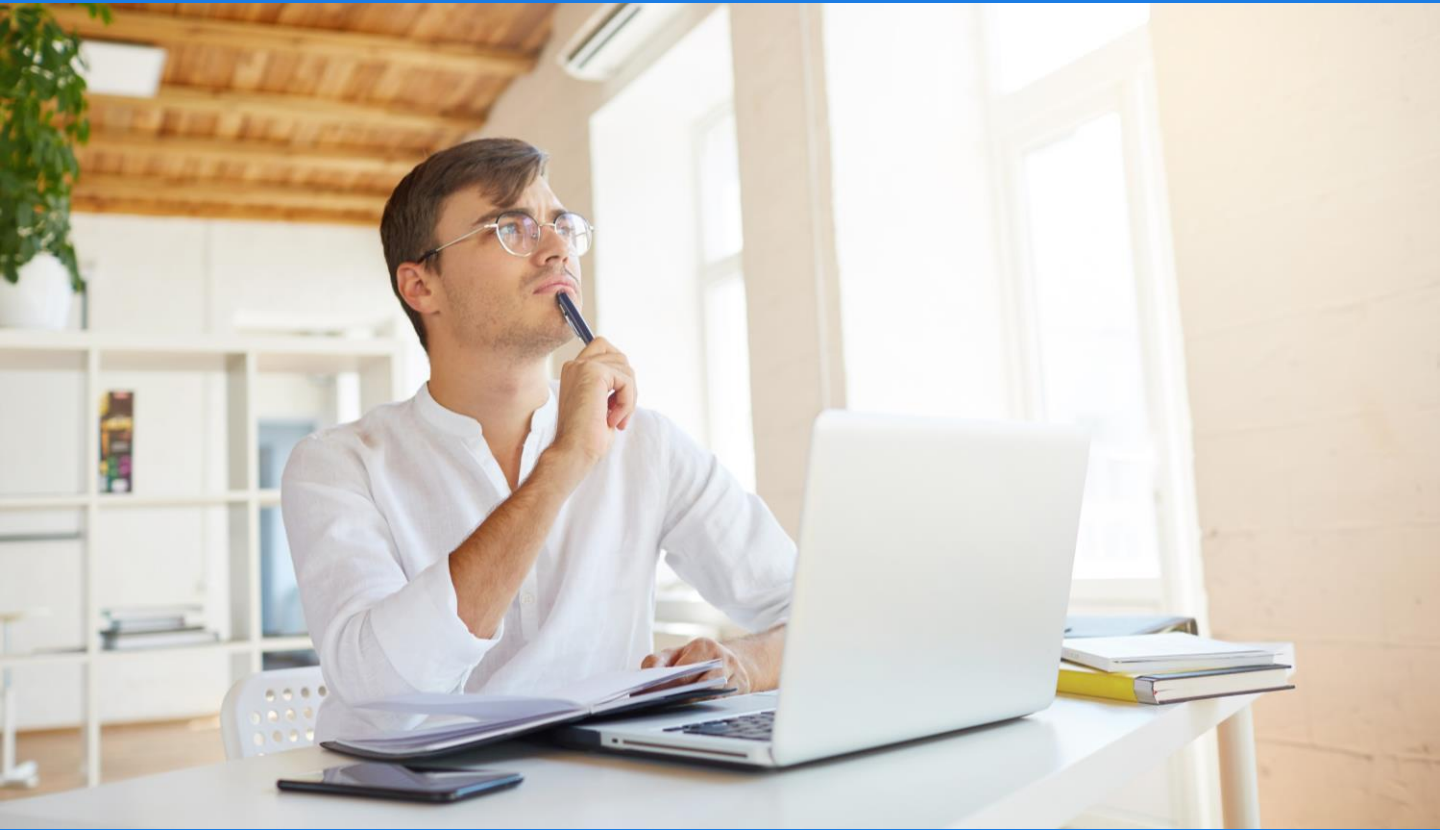
The Growing Popularity Of Online Auctions

The Covid-19 pandemic has accelerated the online auction market—the market is poised to grow by \$1.61 billion during 2021 - 2025, progressing at a CAGR of 8. Among buyers and sellers, the popularity of online auctions can be attributed to these factors:

Buyers	Sellers
Opportunity to find unique items that are out of production	Ability to reach a wider audience
Buyers are able to bargain using the bidding mechanism in place	Sellers can collect information to set prices that are optimal
Ability to remain anonymous	With real-time market data, sellers can notice industry trends before they happen and maximize profits
Convenient buying process in which buyers can trade from anywhere and everywhere	Sellers can collect information to set prices that are optimal
Transparent prices: Buyers can view prices and offers from hundreds of buyers and sellers	Transparent prices: Sellers can view prices and offers from hundreds of buyers and sellers
Safe and secure: Companies like Eze securely hold all funds in escrow until the buyer has confirmed delivery	Large amounts of obsolete and “old” products can be liquidated fast by sellers

The Drawbacks Of E-auctions

As with most concepts ripe with opportunities, e-auctions are not without their challenges. The primary drawbacks being security risks and the increased chance of fraud – both bottlenecks that can be circumvented with the appropriate systems in place.



- **Security risks:** When auctions are held on unencrypted sites, phishing can occur and credit card numbers are stolen in the process. Reliable payment methods and encrypted websites that are vetted can be utilised to mitigate this risk.
- **Possibility of fraud:** As with all non-physical transactions, scenarios can occur where the buyer receives items different from what they intended to purchase. Some buyers also commit fraud by receiving goods and not making payment. At Eze, this is prevented by vetting our sellers and employing escrow services to protect buyers.

Other benefits of the online auction process

- **Zero room for theft:** Because there are no items to physically examine or touch, the probability that an item might be stolen during an online auction is practically non-existent. This means security risks possible in a physical auction are removed.
- **All items enjoy same prominence and emphasis:** In a physical auction, some items are often concealed or get overshadowed by other items. In contrast, online auctions give all items the same chance of discovery.
- **A flexible business environment:** Buyers can engage with several vendors at one time (and not in turns) saving both parties time and resources.
- **Man-power saved:** Since most steps within the processes are automated, much of the needed manpower is saved during online auctions.
- **No geographical barriers:** Owing to the power of the internet, bidders have access to hundreds or even thousands of products, irrespective of their geographical location. And sellers are also able to transact with bidders in different geographical locations, seamlessly. This gives both parties immense visibility that isn't barred by physical location. The cost of traveling to a physical auction venue is also saved.
- **Extended bidding opportunity:** As Brian Graves of Everything But the House noted, bidders online are able to review an item, let friends and family know about it, and stay engaged until they win the item or change their minds about it. That said, e-auctions offer buyers longer time to bid – as the bidding window stays open for as long as the auctioneer pleases – and it's usually longer than it would be possible in a physical auction.

The Automated Online Auction Concept at Eze: How It Works

As the world's first fully automated marketplace for trading electronics in bulk, below is a run through of how Eze's bidding¹ and asking² processes work:

- A buyer creates a bid. Eze's automated platform generates searches to find corresponding ask¹ prices among the open ask offers. If there's a corresponding bid² price equal to or greater than the ask price, there's an automatic match and all matched sellers are automatically notified. Additionally, all buyers with that bid price or higher are automatically matched and notified. The system then employs a first-come, first-serve technique, ensuring that the first matched bidder that makes payment wins the auction.
- When a bid matches several sellers, the seller with the lowest price is favored. Additionally, if several sellers offer the same price, the matched bids are fulfilled by sellers on a first-come, first-served basis favoring the seller that posted first.



Sellers offering an ask

- If a seller posts an ask, the system matches bids that are equal to or higher than the seller's ask. Then, the first buyer to make payment, even if he wasn't the first to bid, wins the auction. But if a seller still has items in inventory, even after selling to the first payer, any other bidder meeting the bidding criteria is sold to.
- On occasions where there's an existing offer a buyer is happy with, (and doesn't want to bid), he may opt to 'buy now.'
- Additionally, buyers are notified when a seller places an ask within the "specific" Eze range, for example \$10 to an existing bid; and vice versa, the seller is notified as well. This could push either the buyer or seller to adjust their bid or ask offers respectively.
- New lowest ask: When a seller posts a lower ask price, other sellers with higher asks for that particular device are notified. Additionally, the buyers are also notified about a new ask on devices they've previously bid on.
- New highest bid: Sellers are notified of new bids higher than previous bids on devices they have asks on. This makes the Eze experience unique in comparison to other e-commerce platforms, where prices change and traders aren't duly notified.



Two inclusive ways the automated process helps traders on Eze

1. Saving buyers' time

For many entrepreneurs, time means money. The lesser the time spent on a transaction, the more opportunity there is to generate higher profit and value. As such, Eze's trading platform is fully automated, powered by carefully developed algorithms and efficient technologies that reduce time-wasting processes.

In contrast with offline shopping, and what can be obtained on several ecommerce platforms, buyers on Eze won't have to waste valuable time scouting for the best prices themselves. Algorithms are in place to save them that time and stress.

The grades of items on sale are also listed on Eze, providing buyers with full access to well detailed images, viewable from different angles. In addition, the devices are put through rigorous testing to pass quality assurance tests and ensure they meet the required standard before being shipped to a buyer. As such, buyers and sellers can take comfort in the transparency and the stamp of approval from Eze – unlike elsewhere.



2. Boosting profits for sellers

By trading on Eze, sellers spend less on inventory storage as they have access to a wide range of buyers globally ensuring faster turnaround time. Geographical locations are not roadblocks either, since Eze provides shipping services globally.

More so, sellers don't have to increase capital expenditure on building a website and marketing or advertising to the target audience. They'll only have to upload their inventory to Eze's platform to begin matching with buyers worldwide. It's as Eze as that!



Eze's Milestones

In under 2 years,

>15

Countries

>1500

Customers

<2%

return orders





Conclusion

Over the years, auctions have not only gained popularity but have also transcended time through built-in automations and processes that have made transactions more secure and seamless. For millions of businesses across the globe, they have also provided access. A buyer in a remote location is able to purchase consumer electronics from a buyer in another continent without having to move a muscle. We often speak of our why at Eze: “all people gaining seamless access to smart devices that have drastically changed the way the world interacts.” In the world of automated auctions, no one is left behind in world evolution – not even in a global pandemic.

Footnotes:

¹ A bid on Eze is an amount a buyer offers for an item, which shows their desire to buy. When buyers place their offers, they’re bidding.

² An ask price on Eze is an amount stated by a seller that shows the seller’s intention to sell an item. When sellers state amounts for their products, they’re asking.

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