

Critical Success Factors for Online Auction Web Sites

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In order to develop online auction web site strategies, a study was undertaken of the characteristics of auctions, online auction markets, online auction models, online auction payments and deliveries, and an online survey was used to gather data about consumers' preferences, opinions and needs. A range of B2B, B2C and C2C online auction web sites was studied and more than 150 responses to the survey were analysed. Six critical success factors for a successful online auction web site were identified: web site design and contents, consumer education, security, customer services and support, online community, and market positioning.

Keywords:

online auctions, critical success factors, strategies

1. INTRODUCTION

Auctions are one of the oldest trading models. They have been widely used for price setting on special items, such as agricultural commodities, financial instruments, and unique items (like art and antiquities). (Rappa, 2003) Auctions can also accelerate deal completion by increasing the competition among buyers. They overcome some of the inefficiency in trading in traditional markets and retailing. Traditional markets and retailing focus on only a small group of people, normally local people, and the high marked price may attract few buyers. More competitors and participants can result in better prices and improving the trading process.

Modern technologies enable auctions to be held on the Internet and make them available to most people in the world. Those auctions held on the Internet are called "online auctions" Online auctions are much the same as traditional auctions, for instance, with respect to auction rules. However, online auctions take advantage of technologies and overcome problems of traditional auctions, such as limited participants, high auction fees and high op-

eration costs. "The Web has popularised the auction model and broadened its applicability to a wide variety of goods and services." (Rappa, 2003)

Due to the Internet becoming widely available in recent years, online auctions have also become popular and more and more online auction suppliers are entering this market. Johnson (2002) said "As overall online sales keep up steady growth, so too do online auctions; they will grow from \$13 billion in 2002 to \$54 billion in 2007, a 33 percent compound annual growth rate." As a result, more and more businesses are looking for more opportunities in this online auction market.

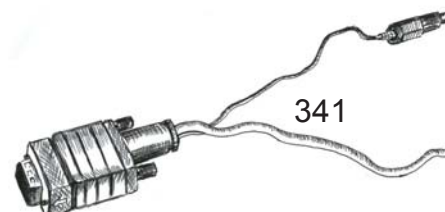
The research described in this paper had three objectives:

- To analyse some existing online auction web sites in terms of business models, revenue, and charges.
- To determine users' opinions about online auction web sites.
- To identify critical success factors for online auction web sites.

2. BENEFITS AND PROBLEMS

The following are benefits to buyers and sellers of online auctions from information and economic perspectives:

- Product information can be delivered nearly anywhere in the world in order to attract potential buyers.



- Online auctions, including the online transaction and auction method, can result in low cost of selling products.

- Buyers are able to access and browse products that are located anywhere in the world without geographical limitations.

- Due to the larger number of suppliers, buyers may benefit from the competitive market. This usually results in cheaper products and/or better quality of products.

Possible problems include the following:

- Before auctions, buyers or sellers are not holding same information. This can result in unfair trading, i.e. one side may take advantage of another due to the lack or inaccuracy of information held.

- Online shopping users are not able to physically inspect the products' quality before they make the decision, due to the characteristics of online shopping and auctions.

- Sellers may supply goods damaged, late or not all.

- Online shopping and auctions are held online and they are not real to users. Users are not sure whether they are real businesses or just frauds.

- Payments for online auctions are done through the Internet. Personal and confidential information, such as credit card numbers, is sent through the public network and information may be captured by anyone who wants to do so. Security issues become critical in online auctions.

- When the goods are not as expected, consumers may not be able to find the seller or refund channels.

3. BUSINESS MODELS, REVENUE AND CHARGES

The business models may be categorised as:

- B2B (business to business) – for example ACE Market, Band-X, Fair Market.

- B2C (business-to-customer) – for example Dell, OnSale and Ubid.

- C2C (customer-to-customer) – for example Amazon, Collectors Universe, eBay, Trademe, Yahoo.

According to InfoTech Trends (2002), the biggest players are eBay (69% of online auction rev-

enue), uBid (14%), Priceline (5%), Amazon (3%) and Yahoo (2%). eBay claims to have increased its sales by 1310% from 1998 to 2002.

C2C auction charges include:

- Listing fees – for regular items Amazon charge 10c, eBay charge 30c to \$3.30 (depending on price) and Yahoo charge 5c to 75c, while for vehicles eBay charge \$40 and Yahoo charge \$5

- Final value fees – using a sliding scale for regular items from 5% to 1.25% (Amazon), 1.5% to 5.25% (eBay), 0.5% to 2% (Yahoo)

- Listing upgrade fees – from 5c to \$100 depending on requirements.

4. SURVEY RESULTS

There were 154 survey respondents, mainly New Zealand based Internet and/or online auction users. Because the questionnaire was mainly designed for experienced online auction users, respondents were reached via New Zealand based online auction web sites by posting hyperlinks of the survey web site on their discussion boards. In addition, hyperlinks were also emailed to UNITEC staff and students.

Nearly all (97%) of the respondents have experiences of participating and bidding in online auctions and only 4% of them have bid without buying anything. 24% have been bidders only and none of them sellers only. The others have been bidders and sellers (31% mostly as bidders, 23% mostly as sellers and 22% bidders and sellers equally). Most respondents (77%) identified Trademe as their favourite online auction site, with eBay second (18%) and Yahoo a distant third (2%). Most (81%) visited auction sites at least once a week. Nearly all (93%) preferred English Auctions, with only 4% preferring competitive sealed-bid auctions and 3% preferring Dutch auctions.

A clear majority (65%) always checked sellers' records before bidding and another 27% often checked sellers' records before bidding. Indeed 58% would not bid if the seller's record is not provided. A substantial minority (30%) used unsecured payment methods (cash, cheque or giving sellers their credit card details), 16% paid by credit card online and most of the rest used payment facilities provided by the online auction suppliers. Two thirds of respondents have had bad experiences and problems with online auctions, the most common prob-

lems being late delivery of goods (17%), damaged goods (13%) never getting the item (11%), and getting a different item (10%). Despite these problems, 23% of participants are very confident of getting expected items from online auctions and 70% of them are confident.

When asked their main reason for visiting websites, 62% identified bargain-hunting, 17% said they look for hard-to-find items and 10% visited for fun. The biggest reasons for returning to a site were “wide range of products” (41%), “best price” (20%) and “user-friendly interface” (20%). The strongest reasons for favouring Trademe were its being local (22%) and having a good web site (18%), whereas the strongest reasons for favouring eBay were its brand (26%) and wide range of products (23%). The two biggest advantages of online auctions over traditional auctions were “available anywhere/any time” (31%) and “convenient” (17%), while the two biggest advantages of traditional auctions over online auctions were “able to inspect the item” (49%) and “better prices/fewer competitors” (14%)

5. CRITICAL SUCCESS FACTORS

Based on studies of existing online auction web sites, a literature search and the survey reported in section 4, the following critical success factors for online auction web sites were identified.

5.1 Web Site Design and Contents

- Web site layout- layout must be clear, comfortable and easy to use, with good use of colour, typography and white space.

- Personalised features- advanced features, such as auction monitoring and notifying features, can bring convenience to users of online auctions.

- Information architecture - appropriate organisation of auction listings can ease the process for users browsing and/or finding particular auction items.

5.2 Consumer Education

- Online learning centre- an online learning centre provides knowledge to consumers about online auctions. It is critical to those who are new to online auctions.

- Online auction programs/seminars- these activities educate people as well as increase brand awareness of potential consumers.

5.3 Security

- Secure payment mechanism- this provides safer online shopping environment and minimizes risks to consumers.

- Escrow service- this offers a fast way of trading valuable items through online auctions.

- Personal information privacy- members’ and online auction users’ personal information must be secured and properly managed for authorised purposes use only.

- Web site security- an effective encryption mechanism must be adopted by an online auction web site for exchanging information, such as login information, between online auction web sites and users, in order to prevent security problems.

5.4 Customer Services and Support

- One way customer services and support- FAQs, online auction web site guides, online help systems are typical customer services.

- Interactive customer services and support- feedback systems, email communications and toll free support calls are basic and critical interactive customer services.

- Customer rating/record system- such systems provide the previous trading records of sellers to buyers and vice versa, thereby improving trust for buyers as well as sellers.

5.5 Online Community

- Discussion boards- a discussion board for a particular topic can attract and group those people who are interested in the topic and form an online community.

- Chat rooms- they provide real-time and interactive communication for information exchange between members of the online community.

5.6 Market Positioning

- Clear market positioning - this is critical for an online auction web site to achieve success.

- Generalist online auction web site- such sites should provide as many categories as possible and as many items as possible.

■ Specialist online auction web site- such sites need to build a good reputation for the category focused on, so that the web site becomes the first choice for buying and selling items of the category.

6. CONCLUSION

In order to have a successful online auction web site, online auction suppliers should put their efforts into meeting consumers' needs. Critical success factors were identified in section 5 for online auction web sites to ensure they are on the right track to achieve success. Suppliers should check whether their current strategies for web site image and branding, customer services, creating communities, and consumer education achieve these critical success factors and/or meet consumers' needs.

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