On-line Bidding Patterns

Ivan Jureta¹, Manuel Kolp¹, Stéphane Faulkner² and T. Tung Do¹

¹ Information Systems Research Unit, University of Louvain,
1 Place des Doyens, 1348 Louvain-la-Neuve, Belgium
{kolp, do}@isys.ucl.ac.be
² Department of Management Sciences, University of Namur,
8 Rempart de la Vierge, 5000 Namur, Belgium
stephane.faulkner@fundp.ac.be

Abstract. Today high volume of goods and services is being traded using online auction systems. The growth in size and complexity of architectures to support online auctions requires the use of distributed and cooperative software techniques. In this context, the agent software development paradigm seems appropriate both for their modelling, development and implementation. This paper proposes an agent-oriented patterns analysis of best practices for online auction. The patterns are intended to help both IT managers and software engineers during the requirement specification of an on-line auction system while integrating benefits of agent software engineering.

1 Introduction

The emergence and growing popularity of Internet-based electronic commerce has raised the challenge to explore scalable global electronic market information systems, involving both human and automated traders [Rac99].

Online auctions are a particular type of Internet-based markets, i.e., worldwide-open markets in which participants buy and sell goods and services in exchange for money. Most online auctions rely on classical auction economics (see e.g., [Bik01, Cha02, Bea98]). “An auction is an economic mechanism for determining the price of an item. It requires a pre-announced methodology, one or more bidders who want the item, and an item for sale” [Bea98]. The item is usually sold to the highest bidder. An online auction can be de-
fined as an auction which is organized using a software system, and accessible to participants exclusively through a website.

Recently, online auctions have become a popular way to trade goods and services. During 2002, the leading online marketplace, eBay.com, provided a trading platform for 638 million items of all kinds. The value of all goods that were actually traded amounted to nearly $15 billion [Ebay02], which represented, at the time, 30% of all online sales in the US. In addition, auctions can be used as underlying economic models for resource management in peer-to-peer and grid computing [Buy01], making it possible to deploy patterns in other domains.

This paper proposes an agent-oriented patterns analysis of best practices for online auction. Providing agent-oriented patterns for such systems can reduce their development cost and time, while integrating benefits of agent-orientation in software development. Agent-oriented development is a modern software engineering paradigm for analyzing and designing distributed and dynamic systems [Jen01] such as online auctions. An agent is an autonomous software entity that is responsive to its environment, proactive (in that it exhibits goal-oriented behavior), and social (in that it can interact with other agents to complete goals) [Kau01]. Multi-agent systems involve the interaction of multiple agents, both software and human, so that they may achieve common or individual goals through cooperative or competitive behavior.

Patterns of best practices in the online auction domain will facilitate the development of new auction systems, by clearly showing the functional and non-functional aspects that are particularly valued by auction participants. Patterns – which are reusable solutions to recurring development problems – for online auction have already been proposed in the literature (see e.g., [Re01]). However, these patterns have been specified using object-oriented concepts. Consequently, they do not show agents as intentional, autonomous, and social entities. In addition, the patterns usually do not integrate best practices identified in current operating auction systems on the Internet. [Kum98] only provides a global architecture of a basic online auction system in the context of object-oriented software development. GEM [Rac99] provides system architecture for developing large distributed electronic markets but it only addresses the system’s basic functionalities required to organize trading among agents. It provides patterns without treating intentional aspects, and uses agents at implementation level.
2 The i* Framework

In the following, we analyse each pattern using the i* framework [Yu94]. i* is an agent-oriented modelling framework used to support the early phase of requirements engineering, during which the analyst represents and understands the wider context in which the system will be used. The framework focuses on intentional dependencies that exist among actors, and provides two types of models to represent them: a strategic dependency (SD) model used for describing processes as networks of strategic dependencies among actors, and a strategic rationale (SR) model used to describe each actor’s reasoning in the process, as well as to explore alternative process structures.

The main modelling constructs of the i* framework are Actors, Roles, Goals, Softgoals, Resources, and Tasks (See Fig. 1). Both the SD and SR models can represent dependencies among Actors or Roles. A dependency describes an “agreement” (called dependum) between two actors: the depender and the dependee. The depender is the depending actor, and the dependee, the actor who is depended upon. The type of the dependency describes the nature of the agreement. Goal dependencies represent delegation of responsibility for fulfilling a goal; softgoal dependencies are similar to goal dependencies, but their fulfilment cannot be defined precisely; task dependencies are used in situations where the dependee is required.

Actors are represented as circles; dependums – goals, softgoals, tasks and resources – are respectively represented as ovals, clouds, hexagons and rectangles; dependencies have the form depender → dependum → dependee.

In i*, software agents are represented as Actors. Actors can play Roles. A Role is an abstract characterization of the common behaviour of an Actor in some specific context (e.g., a consumer, a salesman, a buyer, a seller, etc.).
Online auctions are highly dynamic processes which involve numerous participants. Their structure changes rapidly to reflect the entry and exit of bidders as well as the impact of their behaviour on the price of the item being auctioned. The most common mechanism for on-line sales are the “English”, “Vickrey”, “Dutch”, and “first-price sealed bid” auctions [Bea98, Pim01]. We briefly describe them below.

**English Auction.** Each bidder sees the highest current bid, can place a bid and update it many times. The winner of the auction is the highest bidder who pays the price bid, i.e. the final auction bid that this bidder placed. An example is eBay.com [Ebay04]. English auctions are by far the most popular auction type and their success lies most probably in the familiarity of English auctions as well as in the entertainment they provide to participants (in the form of bidder competition) [Bea98].

**First-Price Sealed Bid Auction:** Each bidder makes a single secret bid; the winner is the highest bidder, and the price paid is the highest bid. An example is The Chicago Wine Company (tcwc.com).

**Vickrey Auction:** Each bidder makes a single secret bid; the winner is the highest bidder. However, the price paid is the amount of the second highest bid. Some online auction systems propose it as an option (e.g., iauction.com).

**Dutch Auction:** The seller steadily lowers the price of the item over time. The bidders can see the current price and must decide if they wish to purchase at that price or wait until it drops further. The winner is the first bidder to pay the current price. An example is klik-klok.com.

Today’s online auction offer features more complex to those that automate the traditional auction mechanisms (e.g. user authentication, auction setup, auction item search, bidding, … [Re01, Wur03]). In addition to enhancing the user experience, these additional features are essential to the commercial success of an online auction. This paper focuses on best practices to better understand and build these features. The analysis is applicable on any type of auction as far as the participant type is concerned: both the seller and buyer may be either customer and/or business. It is independent of the auction mechanism (english, vickrey, dutch, …), as long as it involves a single seller and many buyers.
Some of the features can be introduced in the system in several ways, requiring comparison and evaluation. To select the most adequate alternative, we represent relevant system qualities (e.g., security, privacy, usability, etc.) as softgoals and use contribution links to show how these softgoals are affected by each alternative, as in the Non-Functional Requirements framework [Chu00].

**Proxy Bidding.** Online auctions can last for several days, making it impossible for human buyers to follow the auction in its integrity, as is the case in traditional ones. Proxy bidding allows buyers to specify their maximum willingness to pay.
A procedure is then used to automatically increase their bid until the specified maximum is reached, or the auction is closed [Wur03, Kur02]. This enables human buyers to be represented in the auction, without requiring their physical presence in order to interact with their Buyer agent. Proxy bidding is applicable only when English Auction rules are enforced in the auction.

Proxy bidding can be introduced in the basic online auction in several ways in terms of responsibility assignment. Two alternatives are shown in Fig. 1. Each one is represented as a simple Strategic Rationale model. A series of softgoals have been selected as criteria for alternative comparison – Privacy, Security, Reliability, Speed, and Workload. These are non-functional requirements [Chu00] for the information system and have been selected according to issues often raised in e-commerce system design (e.g., [Myl01, Wei03]), online auction design (e.g., [Wur03, Kum98]), etc.

The first alternative seems more adequate. The responsibility of managing proxy bidding is allocated to the Buyer agent. Several reasons support this choice:

− When the Buyer manages proxy bidding, price preferences are not communicated to outside agents. Consequently, Privacy is higher than in the second alternative which requires the transfer of price preferences to the Auction Manager.

− Workload of the system is lower, since automatic bidding is distributed among multiple Buyer agents participating in the auction. We consider that system Workload is much higher when all proxy bidding activity in one auction is centralized at the Auction Manager.

− We consider that Security of data transfers between the Buyer and Auction Manager is not of high priority in an English online auction, since the bid made by the Buyer is made publicly available by the Auction Manager.

Reliability concerns the probability of error in terms of e.g., a new proxy bid not being taken into account by the Auction Manager. This probability is higher when proxy bidding is distributed among multiple Buyers. Finally, it is probable that speed of bid input is higher when proxy bidding is centralized, since there are no data transfers between the Auction Manager and Buyer agents.

Based on this discussion, we select the first alternative on Fig. 1. Consequently, proxy bidding is introduced in the system as a service that a User
agent playing Buyer role can provide to the human user, and requires the human user to specify the maximum price that he/she is willing to pay. In addition, the Buyer agent needs to obtain an authorization from the user in order to initiate proxy bidding.

Reputation management. In classical exchanges where buyers and sellers actually meet, trust results from repeated buyer-seller interactions, from the possibility to inspect items before the purchase, etc. In online auctions, sellers and buyers do not meet, and little personal information is publicly available during the auction. In addition, product information is limited to information provided willfully by the seller. In such a context, a mechanism for managing trust should be provided in order to reduce uncertainty in transactions among auction participants.

According to [Ram03], “trust is a belief an agent has that the other party will do what it says it will (being honest and reliable) or reciprocate (being reciprocative for the common good of both), given an opportunity to defect to get higher payoffs.” Trust can be favoured in an on-line auction through a reputation mechanism, which should satisfy specific requirements [Ram03]: it should be costly to change identities in the community; new entrants should not be penalised by having a initial low reputation rating; participants with low ratings should be able to rebuild reputation; it should be costly for participants to fake reputation; participants with high reputation should have more influence on reputation ratings they attribute to other participants; participants should be able to provide more qualitative evaluations than simply numerical ratings; and finally, participants should be able to keep a memory of reputation ratings and give more importance to the latest ones. Such reputation mechanism can reduce the hesitancy of new buyers and sellers when using the online auction for the first time, as it implicitly reduces the anonymity and uncertainty among trading partners.

It is difficult to construct a reputation system that satisfies all of these requirements. Seller reputation can be established through feedback of buyers on the behaviour of sellers during the trade settlement which follows the closure of the auction [Ebay02, Res01]. As a result of buyer feedback in repetitive sales, a seller receives a rating which is indicative of the trust that the trading community has in him/her.
In order to enable the management of trust in the on-line auction, we introduce in Fig. 2 an additional agent: Reputation Manager, which is a specialization of the Information Brokering Agent [Pap01]. Informally, its responsibility is to collect, organize, and summarize reputation data. The Reputation Manager depends on the winning Buyer of each auction to provide feedback on the Seller after the trade settlement. Reputation Manager uses Qualitative (textual) and Quantitative (numerical) Feedback on Seller to establish reputation ratings of Users that have played the role of Sellers in auctions. As information on reputation is valuable to any User of the on-line auction, any User depends on the Reputation Manager to Manage Feedback Forum, in which the feedback and rating information is contained and organized. Each Buyer depends on the Reputation Manager to provide summarized Seller Reputation Information, so that the Buyer can have an indication on the trust he/she can put into the relationship with the Seller. The Seller can post replies on feedback provided by Buyers. Finally, the Seller depends on the Reputation Manager to Manage Reputation Rating.

This pattern satisfies all but one of the requirements specified above: it does not make it costly for participants to change identities. For example, eBay [Ebay04] deals with this problem by requiring each seller to provide a valid credit card number. We do not introduce such possibility into the pattern as it is not a standardized solution (eBay applies it only for its US users and none of its competitors applies it anywhere in the world).

Dispute Resolution (Fig. 3). The trade settlement that follows the closure of the auction may not be successful for many reasons (e.g., late deliveries, late payment, no payment at all, etc.). It then results in dispute that can require mediation by a third party in order to be resolved. The third party (here, a
Negotiation Assistant) can be either a software agent that manages an automated dispute resolution process, or a human mediator [Squ04].

The Negotiation Assistant collects Buyer and Seller Arguments, and makes them available to both parties. On the basis of these Arguments and its Solution Knowledge Base, the agent Selects Solution – both the Buyer and the Seller depend on the agent to Suggest Solution to their dispute.

![Fig. 3. Strategic Rationale model of the Dispute Resolution pattern with focus on Negotiation Assistant agent rationale](image)

**Payment.** Payment can be accomplished in numerous ways in the context of an online auction. They can be either managed (in part) through the online auction – e.g., credit card based transactions –, or outside the scope of the online auction information system (OAIS) – e.g., cash, checks, etc. The payment choice of auction participants is not repetitive and differs according to the payment cost, convenience, and protection [Li03]. Consequently, it is important to take these criteria into account when structuring an online auction.

In the Payment pattern, the Payment Agent (specialization of the Negotiating and Contracting Agent [Pap01]) mediates the payment interaction between the Seller and the Buyer. This agent depends on the Account Manager for data on Users, which is then used in providing Payment Details to the Payment System. In addition to user identification, Payment Details should also contain transaction-related data. The Payment Agent depends on the Payment System to Realize Payment and to provide Money Transfer Confirmation, which is used to Confirm Money Transfer to the Seller. The Payment System is outside the boundary of the online auction. Upon closure of the auction, the Seller depends on the Payment Agent to Invoice Buyer. The Buyer
depends on the *Payment System* to provide *Invoice* and in return, the *Buyer* is expected to *Authorize Transfer*.

The pattern structure in Fig. 4 is adapted to PayPal [Pay04, Dig01, Nuv01] and all common credit card based payment systems. Any of these payment systems intervenes in the pattern as the *Payment System*, which is specialized in money transfers.

**Personalization.** Personalization generally refers to making an information system more responsive to unique and individual needs of each user. In online auctions, human users require a personalized interface that facilitates tracking of auctions, placing bids, and listing items for sale. As users differ in their level of expertise, needs, and preferences, we need to tailor information to the user by e.g., making recommendations on auctions in which the user might wish to participate.

Personalization requires specific capabilities from the *User* agent. This agent should be able to observe and record actions of the human user, in order to adapt the user interface of the application and suggest behaviour to the human user. Suggestions should be made by analysis of both the behaviour of the user, as well as the behaviour of other users that exhibit similar behaviour and have similar preferences. Fig. 5 shows the partial strategic rationale model of the *User* agent, with focus on the way it provides the personalization feature of the on-line auction, for two alternative recommender systems.

In practice, very different kinds of recommender systems are used in e-commerce systems in general (for a taxonomy of these, see [Sch02]). In
online auctions, eBay [Ebay04] allows the user to provide indications on the item he/she is interested in buying, by describing it by a set of keywords and a price limit. This is particularly adapted to online auction environments as the quantity of products being sold is extremely high and product descriptions are inconsistent, even for identical products (this is due to the freedom left to sellers to describe items the way they want). eBay then performs automatic searches for the user (during a limited period of time: 30, 60, or 90 days) and informs him/her by email when the item with such description becomes available. The strategic rationale model of this system is provided as the second alternative on Fig. 5.

![Graph showing contributions of each alternative to softgoals](image)

**Fig. 5.** Two alternative rationales for providing personalization through recommendations. Alternative 1 is used in traditional e-commerce. Alternative 2 is used currently on eBay [Ebay04]

The first alternative is commonly used on traditional e-commerce systems (such as Amazon.com [Ama04, Sch02]). It requires somewhat sophisticated methods for tracking user behavior, interpreting it, and extrapolating future behavior. In addition, compared to Alternative 2, it leads to higher workload of the information system, and consequently to higher operating costs of the system (more processing power is needed to run data mining algorithms). It does provide significant benefits, notably in terms of community building, as
users may be provided with indications on preferences of others (e.g., such system would suggest behavior in terms of “Buyers who bought this item, also bought …”), and may be able to contact these other buyers.

The second alternative is more cost effective (in terms of workload) and probably more precise, as it provides suggestions on the basis of explicit item attributes provided willfully by the user. In addition, it provides better privacy protection, since it does not record the behavior of the user. The choice between the two could be guided by e.g., operating cost considerations and target audience (Alternative 1 is more interesting for Customer to Customer auctions in which niche segments are targeted, since it helps in building the community among buyers; Alternative 2 is more interesting for large-scale cost-conscious auction systems, which do not have a particular target audience).

**Fraud Detection.** Fraud is common in online auctions. In 2002, more than 33,000 fraud complaints were filed [Woo04]. Fraud issues are strongly related to trust and reputation, and should be accounted for an online auction system, in terms of specific parts of the system that are specialized in fraud detection activities. These may be human and/or automated agents, provided that the latter dispose of high performance automated methods for fraud detection. [Wur03] provides an overview of fraud methods employed in online auctions.

The fraud detection pattern (Fig. 6) is based on two main agents: The Fraud Complaint Centre and the Fraud Detector. The Fraud Complaint Centre gathers all the Fraud Complaints posted by Sellers and/or Buyers. The Internet Fraud Complaint Centre (IFCC) typically plays this role [Ifcc04]. Besides, Users also expect active fraud detection. They depend on a Fraud Detector to Detect Fraud in a secure and reliable way.

The Fraud Detector requires specific User information and therefore depends on the Reputation Manager for Seller Reputation Information, the Account Manager for User Information, and on the Auction Manager for Auction Information.

The fraud detection methods proposed in [Sha02] are based on statistical methods and association analysis. This is particularly helpful to detect shilling, one of the most common fraud practice in online auction. The Seller tries
to hike up the prices in auction by placing buy bids under distinct aliases or through associates.

![Fraud Detection pattern](image)

**Fig. 6. Fraud Detection pattern**

### 4 Conclusion

Online auctions have become increasingly popular in e-business transactions [Woo04, Wur03]. Companies require such systems to be developed on tight budgets and in short time, in order to deploy auctions in managing relationships with their suppliers and clients. Patterns of best practices of online auctions can provide significant aid in the development process of such systems.

This paper explores such patterns, by analysing some advanced online auctions functionalities through the lens of the agent paradigm. Compared to the literature, our approach is innovative in several respects: we consider that multi-agent systems are particularly adapted to modelling and implementing online auction systems; we provided the *i* agent-oriented modelling perspective of each of the patterns we consider and we focused on specifying best practices in current online auction systems.

There are limitations to our work. We have not provided other dimensions than the *i* (social and intentional) ones for the patterns. This is well beyond the scope of this paper as it requires much more time and space. As future work, the patterns will be modelled using UML-based notations as well as formally specified with the Z language.
References


[Ram03] Ramchurn S.D., Huynh D., Jennings N.R.: “Trust in Multi-Agent Systems”. 


