ONLINE CUSTOMERS' EDUCATION: CONSTRUCTION OF CONSUMER-ELECTRONICS COMMODITY INDEX FUTURES--ANALOGY OF SHORT-SELLING PRACTICES BETWEEN BONDS MARKETING AND INTERNET RETAILERS' PROVISION

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ABSTRACT

In this paper, we draw an analogy between the short-selling practice (i.e., strategies betting on price decreasing over time) of bonds marketing and Internet retailers' Lower-Price-but-Longer-Waiting practice. As a market convention, bond prices peak when the issuance is still in preparation, and drop when actually issued. Such a convention was exploited by some practitioners to *squeeze* others. Similarly, survey results suggested that, although timely delivery has been deemed a key indicator of perceived service quality, online customers have been underserved in that aspect. The fact concerns us particularly in the era of e-Commerce, as highlighted by *Economist*. We believe that there are important preventive lessons to be learned from the bond *squeeze* and e-Tailing incidents. Further research may provide useful insight for online consumers and their protection agencies.

BODY

Descending Bond Prices

In bond market, the price of a to-be-issued instrument peaks when the issuance is only known by words-of-mouth among dealers. The price of the issuance drops continually thereafter and such a phenomenon supports the practice of short-sale. This short-selling convention of the bond market was once exploited by one of the key players through bidding up and monopolizing a particular bond issuance [2]. The monopoly then charged sky-high prices when all others who had followed the short-selling convention tried to recover their short positions after the bond was issued.

An HBS case [2] had described the infamous "squeeze" as follows: "In early June 1991, the U.S. Treasury was inquiring about the possibility that Salomon had engineered a "squeeze" in the market for $12 billion in new Treasury notes auctioned on May 22, 1991. Ordinarily, the Treasury's concern over the possibility of a squeeze was not particularly problematic. Squeezes--that is, an unpredicted shortness of supply or high demand for a security--were not uncommon and developed for a variety of reasons. Unfortunately, Saloman's Vice-Chairman John Meriweather had reason to believe that one of Salomon's bond traders had recently violated the Treasury's auction rules. Paul Mozer, the managing director overseeing Salomon's trading in U.S. Treasury securities, had disclosed to Meriweather in late April that he had broken the Treasury's limit on the size of a dealer's bid in treasury auctions by submitting a bid in a February auction using the name of a customer without authorization."

Descending Consumer Electronics Product Prices

If we investigate the online retailing practice, we see an analogy: online retailers provide lower price for high-end machines with only limited availability as compared to real storefronts retailers. What's also well-known is the ever-decreasing market price of such higher-end consumer electronics products. Customers who are attracted to the lower price quote of online stores usually have to wait for an indefinite amount of time to receive their order or nothing at all. The waiting allows the online retailers to deliver the product at the promised price if the schedule of price reduction realizes. Otherwise, customers may just receive a substitute product or a cancellation notice. This is the short-sell practice of e-Tailers and this phenomenon is fully backed by a large-sample survey conducted in 2006 [1]: “Online retailers must distinguish themselves in three aspects of a transaction: customer interaction with the Web site, delivery of the product and ability to address problems when they occur.”

Below are two experiences from two online customers with the same online retailer in June 2007 [3]. The first customer was lucky since the online retailer was able to secure a unit of sharp 52” LCD TV (LC-52D92U) within twenty-seven days from the original order date. In the customer’s own words: “Overall I saved about $1500 vs local retail stores, but I paid for it with a month of waiting and a ton of worrying.” The second customer was apparently lacking in luck and was not served at all--most likely due to the high cost from non-realization of the online retailers’ price reduction schedule of a Sharp LCD 46" LCD TV (LC-46D62U). He recalled with regret “This whole thing is suspicious; I should have read the warnings.”

The price variation of hot consumer electronics product from competing e-Tailers is shown below:

Table 1. Price variation of three popular consumer electronics products

Product	Product Description	Tier	Life Cycle / Competition	Price Range	Lowest Price=100%
Sony KDL-40XBR2	LCD TV	1st	Short/High	$1500 - $2500	100%-166%
Sony (alpha) DSLR-A100H w/ SAL-18200 Lens	SLR Camera w/ SteadyShot	1st	Medium/Low	$920 - $1132	100%-123%
Casio Exilim EX-V7 (silver)	Camera	2nd	Short/High	$178 - $300	100%-169%

An Analogy Between the Two Descending Prices

The main kernel that calls for a higher starting price in each case is as follows: the newly issued bonds are more available (also known as having higher liquidity) while the newly released consumer electronics product enjoys technical superiorities/novelties, especially when an evolutionary product like large-scaled LCD TVs is being introduced to the market for the first time. The online retailers’ strategy is to catch as many shoppers as possible with a lower-than-prevailing-market price that often becomes prevalent in the indefinite future. If we can help forecast and construct a price reduction schedule over time, we can help customers determine if an online ad is reasonable or just too good to believe.

Table 2. Comparing the differences between the two kinds of descending prices.

Market	**Price peaks when**	**Price declines when**	**Price drops significantly when**
Bonds	Announcement of new bond was made	The new bond becomes available	Availability of new bond diminishes
Consumer Electronics	Announcement of new product was made	New product is widely available	Newer products are announced

Table 3. Factors to include in a consumer electronics futures index

Time on market	Time till commence of shopping season	Time in the product’s life cycle	Destructive Construction / Blockbuster Innovation	Price stickiness of the particular manufacturer (high, medium, low)

6 months	3 months	1st quartile	Yes--first 70" LCD TV	High, it's a SONY!

Benchmarking can best be drawn from leading, established dual platform stores with high business volumes and consumer feedback. Two good examples are J&R and Fry's.

The following was reported by a recent survey [6]: "With 71 per cent of online shoppers seeking out ratings and reviews (source: Forrester) it is fairly surprising that only 38 per cent of online retailers have a testimonial or comments part on their web site. A FAQ page was identified on 10 per cent of sites." Urging/Requiring online retailers to provide a testimonial or comments tab on their web site is one way of enforcing honest business practice.

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