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Abstract

Internet auctions are common in nearly all consumer categories. Hence, it is not surprising that a great deal of research has emerged on the topic in recent years. New design and format considerations and a wealth of available data from various platforms provide new questions and promising research opportunities for marketing researchers. This monograph begins with the introduction of the basic settings, concepts, and processes that are the building blocks of auction research. It then focuses on the transition from pre-Internet auction research to more recent topics. Special attention is given to research opportunities as well as to experimental methods that can provide both laboratory and field data to answer important questions. The survey reviews recent empirical and theoretical works on Internet auctions with a focus on Internet auction design, formats, and features that are currently debated in the marketing literature. Some of these issues are extensions of general auction topics, but the findings can be quite different in Internet environments. We touch on new design features that are particularly relevant

to Internet auctions such as feedback ratings, buy-it-now options, and different closing rules. We also look at strategic and behavioral models that are shaping marketing research on Internet auctions. Particular emphasis is given to behaviors that are relevant in offline environments but take on new meanings and forms in Internet auction environments.

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1

Introduction

Online consumer auctions represent hundreds of thousands of retailers, over half a million storefronts, millions of individual sellers, tens of millions of active buyers, hundreds of millions of items sold weekly, and tens of billions of dollars in annual sales (see Park and Wang, 2009, for some of the eBay figures). In addition to their spectacular reach into all consumer segments, online auctions have greatly increased the variety of goods and services that can be bought and sold using auctions, expanded the ways in which auctions can be conducted, and created altogether new uses for auctions (Pinker et al., 2003). As a result, there has been hectic research activity devoted to analyzing data from online auctions and building theoretical models of their design and use. It is not surprising that online auctions garner a great deal of attention in many academic fields, including marketing.

What may be surprising, however, is how many puzzles remain unresolved in this area. The field of auctions has been an active field for nearly half a century and yet the wealth of knowledge it has generated does not begin to scratch the surface of questions being asked. Online auctions have led to the creation of many new auction design features relative to traditional auctions, such as proxy bidding machines, feedback mechanisms, and buy-now prices. Given

the increased importance of Internet auctions for retailers, there is an increased need to study these new features (Cheema et al., 2005; Haruvy et al., 2008). In addition to numerous new features, online auctions operate in a unique environment that allows bidders easy search and access to information and at the same time requires unparalleled levels of trust (and mistrust).

Hence many of the questions we ask relate to search and trust. Here is a sample of questions we touch on in this monograph: Why do buyers often pay a price in an online auction that exceeds the listed price by other popular online retailers (like Amazon) or in another concurrent auction on the same site? What motivates buyers to provide feedback on sellers for the benefit of other buyers, to trust feedback by other buyers, and to trust the seller based on such feedback? Why do sellers, who are allowed to list their items for up to seven days on eBay and are not being charged for the duration of the auction, often choose durations shorter than seven days? Why do sellers often provide a buy-it-now option which caps the maximum possible price they can obtain?

Before addressing these interesting questions and others, it is worthwhile addressing perhaps the biggest puzzle relating to online auctions. Specifically, how did we get to the point where online auctions are a major component of the online retail sector? How did a platform, seemingly intended for collectors, come to dominate online retailing?

The rapid growth of online consumer auctions is often attributed to the ability of the Internet to bring together buyers and sellers from geographically dispersed markets as well as to the relatively low cost of search on the Internet (Bajari and Hortaçsu, 2004; Klein and O'Keefe, 1999; Pinker et al., 2003). This has enabled active markets whose existence, scope, and size would be limited without the ability of buyers and sellers to find each other and easily transact. Collectibles, used items, and novelties are some examples of such markets, but even traditional consumer goods such as books, CDs, toys, baby products, and appliances can be found in Internet auctions due to the ease of search and easy access.

An equally important factor in the success of Internet auctions is the efficiency they bring to markets, allowing buyers and sellers to bypass a number of intermediaries that might otherwise be crucial. Bajari and

Hortaçsu (2004) argue that online auction sites substitute for more traditional market intermediaries such as specialty dealers. According to Pinker et al. (2003), the easy access to information on electronic auction sites allows sellers to base pricing decisions on past data and to choose design attributes.

One should also not dismiss the role that promotion played in the dissemination of online consumer auctions in a short span of a few years to about one-third of online users. In the early days of online auctions, eBay spent a great deal of resources on identifying heavily searched products (e.g., Furby) and ensuring that search keywords would direct the searcher to the eBay site. eBay also entered into expensive yet critical alliances, such as a key alliance with America Online, that directed traffic to its site. These efforts involved a great deal of resources, and should not be ignored in any analysis on the diffusion of online consumer auctions.

Research in the field of Internet auctions moves at a lightning speed compared to other empirical and theoretical research. Some reasons include data availability that is truly unparalleled, a nearly infinite number of possible format and design choices, and the rapid evolution of the auction platforms themselves. Moreover, some of the questions that were of greatest interest a few years ago are of lesser interest and importance today and some of the questions that are of importance today were not yet conceived then. Auction platforms popular when many past articles were written (Amazon, Yahoo, Freemarkets) no longer operate, or are much more limited in scope. The closing rules employed by these auction platforms are likewise no longer of interest. Feedback systems have changed. Fraud detection systems are far more evolved and effective. And the list goes on.

Our expertise is on auction field experiments, where we believe a great deal of insight lies. Hence, the focus and organization of the present survey is markedly different from previous reviews and is more suitable as a comprehensive guide of the type of research that is pursued in field experiments, with a somewhat different focus and set of tools. Accordingly, the background assumed here is very different, with somewhat less focus on economic theory and greater focus on managerial questions.

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