Perceived Utility in Online Auctions: A Joint-Effect of Vendor, Product and Pricing

Kuanchin Chen, Department of Business Information Systems, Western Michigan University, Kalamazoo, MI, USA
Jengchung Victor Chen, Institute of International Management, National Cheng Kung University, Tainan City, Taiwan

ABSTRACT

Perceived utility is among the many factors that influence a buyer’s purchase intention in online auctions. In this study, the authors examined a model for the predictors of perceived utility and perceived product quality. The results show that the single most dominant predictor for perceived product quality is the perceived seller quality, followed by perceived price gap. Perceived price gap outweighs perceived product quality and seller quality as the most influential predictor for perceived utility. The role that product information sufficiency plays is not significant enough to impact perceived product quality. Nor does it have an effect on the final perceived utility. Several managerial implications are discussed.

Keywords: Commitment Cost, Online Auctions, Perceived Price Gap, Perceived Utility, Product Information Sufficiency

INTRODUCTION

Trigeorgis (1993) proposed several broad implications of real options that can be applied to many dynamic trading environments (such as online auctions). The key idea is that buyers in a trading environment are generally affected by a set of dynamic factors usually outside of their control. For instance, there are certain techniques that online sellers can do to entice buyers (bidders) to go further into the bidding process. As a result, seller provided cues, such as product price, quality and other attributes, are frequently the key information for consumers to formulate their internal assessment of the product. The intertwined relationship among all these seller factors eventually affects a consumer’s buying behavior (Rajneesh et al., 2003).

In the pricing strategy literature, several forms of product price (e.g., actual sale price, reference price provided by seller and other price criteria) have long received research attention. For example, Della Bitta, Monroe and McGinnis (1981) found that seller’s price provided an anchor point for consumers to formulate their own internal assessment of the product value. The assumption for this relationship to hold is that no other price references are available or

DOI: 10.4018/ijea.2014010103
economically accessible. However, such internal assessment of product value through product price does not always remain constant in online auctions as consumers continue to be exposed to bids from which an individual’s assessment of product value continues to be shaped by the changing bidding price. As a result, the influence of seller’s set price may not be the same compared to the price in a static environment (e.g., shopping at brick-and-mortar locations).

Quality of certain products (i.e., those that require user experience and/or interaction) sold through online auctions may be difficult to assess for their quality until they are received. For example, the empathy, reliability and tangibility dimensions of SERVQUAL that have been shown to have an effect on customer satisfaction (e.g., Chang, et al., 2013) are not easy to measure until the product is received. Some studies suggest that seller provided price may be considered as an indicator of product quality when there is no other means to gauge product quality or when it is difficult or very costly to obtain such quality information (Jacoby, Olson & Haddock, 1971; Raju, 1977; Wheatley & Chiu, 1977; Papaioannou, Assimakopoulos, Sarmaniotis & Georgiadis, 2013). Although sellers may have their own ways to affect price in online auctions, other buyers can also exercise their influence on the final price by bidding. This price competition through bidding gradually shapes the true perceived product price among the bidders.

This price discussed in the preceding paragraphs is set externally outside of consumers (a.k.a., articulated price), but most consumers formulate their own price perception as “internal reference price” – a term defined by Thomas and Menon (2007) as “… the price point on the subjective judgment scale above which all prices are typically judged as high and below which they are judged as low” (p. 401). Although abundant studies (e.g., Saini, Rao & Monga, 2010, Dutta, 2012) have focused on consumers’ internal reference price as an important driver for purchase intention, few have shed lights on the dynamics of online auction, perceived price gap between referenced price and seller’s price, and vendor quality for their joint effect on consumer utility.

Therefore, this study is designed to (1) apply the concept of real options theory to evaluate how independent variables affect the buyers’ perceived utility and perceived product quality, and (2) examine vendor as well as product quality perceptions on the perceived level of utility.

Literature Review

Real Options

The techniques involved in real options play an important role in an environment with a high degree of uncertainty (Mustafa, 2006). Real options are derivative goods and contracts that holders are entitled to exercise their “rights” during a future period of time (i.e., American options) or at a certain future time (i.e., European options) to purchase or sell at the quantity bound by the contract. Because holders own the “right”, not obligations; they can choose not to exercise the right and let it expire automatically. However, sellers must fulfill the stated obligations after receiving the premium. In other words, buyers pay the premium to obtain “rights”, and sellers take the premium and then fulfill their “obligations.”

There are two key implications of real options for online auctions:

1. Estimation of Best Auction Price: The best auction price is one that maximizes the seller’s profitability while meeting the highest price a bidder is willing to pay. Unfortunately there is seldom a clear picture of what such price should be and how the price variation would affect potential bidders to start bidding. A well-known economic theory, the welfare theory, states that the price a bidder is willing to pay is equivalent to compensating variation (CV) in a static market where a bidder’s willingness to pay (WTP) equals the CV (Corrigan, 2005). Corrigan continues to suggest that many auction environments
Mining Electoral Data for Effective Campaigns and E-Participation: A Case Study in Venezuela
www.igi-global.com/chapter/mining-electoral-data-effective-campaigns/76240?camid=4v1a