Brand Equity Effects on Bidding Strategies in an Online Environment: Evidence from eBay Coin Auctions

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ABSTRACT

Internet auction bidders seldom have all the information resources upon which they have learned to comfortably rely. This raises the possibility that internet auction participants depend more on brand related knowledge and employ bidding strategies consistent with heightened valuations of brand related information. This study empirically examines how differences in brand equity affect consumer online auction behavior on eBay. Branded products with objective values (certified coins) are examined for differences in bidding behavior across auctions. The results indicate auction participants employ incremental bidding strategies for preferred brands that have higher prices except when those brands were for coins of the highest quality. Auctions that had sellers who were not power sellers or which did not take Paypal are more prone to attract late or last minute bidders.

Keywords: Bidding Strategy, Brand Equity, Internet Auctions, Paypal, Perceived Risk

INTRODUCTION

A product’s brand equity is the positive or negative value that a brand conveys to a product beyond the attributes of an otherwise identical unbranded product (Ailawadi, Lehmann, & Neslin, 2003; Ortmeyer & Huber, 1991; Yoo, Donthu, & Lee, 2000). The brand, name and/or mark associated with a product can make it easy for potential consumers to remember, associate with product benefits, as well as clearly distinguish from close substitutes of-

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ffered by competitors. Products with positive brand equity reduce consumers’ perceptions of risk and simplify their purchasing decision processes (Lee & Han, 2002; Vanhonacker, 2007). As a result, consumers are often willing to pay positive price premiums for well-known and valued brands (Keller, 1993; Keller, 2001; Keller, 2009; Lichtenstein, Bloch, & Black, 1988). Recognition of this potential has made building positive brand equity an increasingly important management responsibility (Kapferer, 2005; Madden, Fehle, & Fournier, 2006; Rego, Billett, & Morgan, 2009).

The potential benefits of brand equity are greatest when market circumstances create more uncertainty rather than less (Broyles, Schuman, & Leingpibul, 2009; Erdem et al., 1999). Time pressures, the inability to inspect products, and/or sellers who are relatively unknown to the buyer are factors that can increase the uncertainty associated with a transaction. These features are common to internet auctions and may make brand equity even more important than usual in such an exchange environment (Casalo, Flavian, & Guinaliu, 2008; Cheema et al., 2005; Li, Srinivasan, & Sun, 2009; Stafford & Stern, 2002). Potential buyers are usually unable to physically inspect the product being offered; bidders are typically geographically distant from sellers who could misrepresent their offers by accident or design, and internet auctions are frequently limited in duration. Not surprisingly, several previous studies have investigated whether consumer behaviors are consistent with higher perceptions of risk during internet auctions. For example, bidders in eBay auctions have been shown to gravitate toward items with more bids or bidders and ignore auctions of equivalent items of equal or superior value (Chen, 2011; Dholakia, Basuroy, & Soltyssinski, 2002; Dholakia & Soltyssinski, 2001).

Similarly, the prior experience of internet bidders has been shown to have a direct influence on their bidding strategies. Wilcox (2000) and Wang and Hu (2009) found that internet bidders were more likely to adapt their bidding strategies and submit bids equal to their maximum willingness to pay as their experience increased, although many very experienced bidders continued to employ bidding strategies inconsistent with efficient auction theory. Internet auction participants have also been found to respond quite differently to auction sellers with a strong reputation, whether positive or negative (Dholakia, 2005; McDonald & Slawson, 2002). Other studies note how the uncertainty associated with internet auctions provides participants with an incentive to time bids, that is, bid incrementally or bid just before an auction ends (Bajari & Hortacsu, 2003; Friesner, Bozman, & McPherson, 2008; Goes, Karuga, & Tripathi, 2012).

The extent to which brand equity affects bidder value perceptions and behavior in internet auctions has not been similarly investigated. This is a critical omission given brand equity’s theoretical importance and wide spread application in practice. Both internet auction participation and the prospect of obtaining the highest possible price should be determined, in large part, by how brand equity influences bidding behavior in an online environment. As a consequence, this study evaluates how differences in brand equity, and the possible sources of those differences in brand equity, affect consumer bidding strategies in one of the most well-known internet auction websites (eBay). To do so, auctions on eBay for branded products with objective values (certified coins) are randomly selected and examined for significant predictors of bidding behavior and differences in brand equity premiums across those auctions. The next section of this paper presents some relevant background information and develops hypotheses concerning internet auction behavior when a product exhibits positive brand equity. Methodological procedures and data are discussed immediately thereafter. The results of this inquiry are then summarized, followed by some concluding remarks and suggestions for future research.
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