The Rugby Player and the Handbag: Extending a Model of the Factors of Influence in Online Auctions

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ABSTRACT

Research into the determinants of online auction prices has tended to group them into buyer factors, seller factors and site factors. A case is presented which records how a $30 handbag was sold for $22,750 in an online auction shortly after a national sport final. Analysis of the case indicates additional factors which can exert a considerable influence on the final auction price. A model is proposed which depicts five groups of factors impacting the final price: buyer factors, seller factors, site factors which are expanded to include timing of the "action", and site brand strength; product factors which include product features, brand strength, and brand extension/association; and promotion, which includes media publicity. While not all factors will impact on every auction, due consideration should be accorded each of them.

Keywords: Branding, Buyer, Online Auctions, Product, Promotion, Publicity: Seller, Site, Timing

INTRODUCTION

On 3 June 2006 a vinyl handbag containing a broken cellphone was sold in an online auction in New Zealand for $22,750. The bidding had lasted for four calendar days. Similar handbags could be bought from retailers for $20-$30, and similar new cellphones cost about $100. In this study we explore the reasons for this extraordinary outcome.

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This article begins with a review of the research literature examining the factors which influence the outcomes of online auctions. This literature is summarized in a “standard model” of online auction factors of influence. The story behind the sale of the vinyl handbag is then presented. As will become evident from the case, certain additional factors exercised an even more important influence than did the conventional factors embodied in the standard model. We conclude by presenting an extension to the standard model, to take into account additional factors which may influence the outcomes of
online auctions—factors illustrated in the case of the rugby player and the handbag.

ONLINE AUCTIONS

The rise of the Internet and e-commerce has seen the emergence of a number of new business models, and adaptations of others (Rappa, 2004). One important example of a successful adaptation is the online auction.

Most traditional auctions attracted attention from limited numbers, e.g., the very wealthy, or specific-interest groups such as used car salesmen, real estate developers, or fresh produce and livestock dealers. In contrast, online auctions have changed the profile of interested parties significantly (Gilkeson & Reynolds, 2003).

Online auctions based on the Internet have resulted in lowered barriers to entry, improved flow of information, enhanced power of buyers, increased efficiencies, and intensified competition (Ibeh, Luo & Dinnie, 2005). Accessibility has also dramatically increased: the ubiquity of the Internet means that many more people have access to online auctions and to the information relating to any specific auction, than would be the case for traditional fixed-time-and-place auctions.

In many ways, online auctions follow the approaches of traditional auctions. Thus online auctions can be open or sealed bid, single or multiple item lots, a seller can set a reserve price or not, and either the first in descending order (Dutch auction) or the last bid in ascending order (English auction) can be the winning one. Bidding can open at zero with a hidden price reserve, or the seller can predetermine the opening bid price (Massad & Tucker, 2000).

Hofacker (1999) noted five categories of risk associated with auctions: time between purchase and delivery, vendor trustworthiness, security, brand integrity, and privacy. All of these apply to online auctions as well as traditional auctions. However, despite the risks, online auctions have been found to exceed in-person auctions both with regard to opening bid prices and average final prices (Massad & Tucker, 2000).

In any auction, final prices paid for the goods being auctioned are the ultimate indication of success. Stern and Stafford (2006) identified three groups of factors which determine final prices in online auctions: buyer factors, seller factors, and site factors. Other auction research literature also supports these three groups. Each group of factors is examined below.

Determinants of Price in Online Auctions

Buyer Factors

Psychological factors are extremely important in influencing the prices paid at auctions (Kagel, 1995). This applies to online auctions as well (Gilkeson & Reynolds, 2003). However, as yet the individual and collective psychology of bidders is not well understood—especially those aspects that lead to higher bids and higher profits (Stern & Stafford, 2006).

Bosnjak, Obermeier & Tuten (2006) argued that both cognitive motivations as well as hedonistic motivations help to explain bidding behaviour. Higgs and Worthington (2005) also realized the importance of hedonism and developed a hedonic price index with regard to art auctions. In addition, Bosnjak et al. (2006) pointed out the desire for entertainment with online auctions—either as an observer or as a participant.

There is also a competitive aspect to auctions. The desire to compete with others is a strong motivation (Stern & Stafford, 2006) and the competitive dynamic which develops during online auctions, especially consumer-to-consumer (C2C) auctions, has been seen to drive price escalation. Overpayment for a good may result (Dolan & Moon, 2000; Liang & Doong, 2000; Lucking-Reiley, Bryan, Prasad & Reeves, 2000).

Reference group influence can also be a strong driver of price escalation (Moschis, 1987; Goethals, 1976). Bidders are often driven by both group behaviour and competitive games-
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