

Chapter VIII

A Review of Single-Item Internet Auction Literature and a Model for Future Research

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ABSTRACT

Internet auctions have received a considerable amount of attention from researchers. We review recent empirical literature pertaining to single-item Internet auctions and observe that existing work has examined the roles of the auctioneer, bidder, and seller in Internet auctions. As this stream of research matures, research will necessarily move from concept discovery and process explanation to theory deepening. As a first step towards synthesis of findings in Internet auctions, we compile a comprehensive list of the various factors that have been examined in empirical studies and note their general impact upon auction outcome. Based upon this extant research, we propose a conceptual model of Internet auctions as a framework for structuring future work into Internet auctions. We then note the existing economic, psychological, sociological, and cognitive theoretical bases for work on Internet auctions. We conclude by highlighting the potential for behavioral economics to bring unity to Internet auction research and by calling researchers to engage in the work of forging a comprehensive theory of Internet auctions.

INTRODUCTION

The e-commerce revolution is transforming the way goods are bought and sold. Consumers now

have access to astounding volumes of information via the Internet and enjoy considerable power within the marketplace. Consumers now have the choice of either making purchases through estab-

lished fixed-price channels or dictating the price they are willing to pay for an item. The unrivalled dominance of the fixed-price marketing model has diminished somewhat as a new avenue for purchases has gained popularity—the Internet auction. Not only are consumers enjoying the benefits of auction pricing, but Web technologies have allowed businesses to conduct auctions with other businesses to streamline their supply chains and reduce transaction costs (Lucking-Reiley & Spulber, 2001). These auctions, unheard of a scant ten years ago, have transformed vast segments of the marketplace and rank among the most dramatic business developments of the Internet Era.

A host of questions have been asked with regard to Internet auctions. Do bidders in Internet auctions behave in the same manner and according to the same principles as participants in traditional auctions? Do the various auction formats used on the Internet yield equivalent revenues? Researchers have begun to examine the myriad factors sellers should consider when placing items in an Internet auction (e.g., Ba & Pavlou, 2002; Gilkeson & Reynolds, 2003; Standifird, Roelofs & Durham, 2004). For instance, how does the initial bid price, the use of an escrow service, the seller's feedback rating, or the product description impact the revenue generated? Others scholars have begun to examine the impact that consumer characteristics may have upon Internet auction transactions (e.g., Stafford & Stern, 2002; Mollenberg, 2004; Dholakia, 2005b). Are all bidders motivated solely by value-maximization or are some participating in auctions out of a hedonic motivation? Researchers and practitioners alike are interested in the answers to these and other questions. In the following pages, we present a model for investigating Internet auctions that may facilitate the investigation of many of the questions asked in each of these streams of research.

What has not yet emerged from research into Internet auctions is a comprehensive theoretical explanation that encompasses the aforementioned

perspectives (Dholakia, 2005a). Theory development often takes many years and builds upon vast numbers of studies. As research streams mature, there are a number of preliminary steps on the road to full-fledged theory (Runkel & Runkel, 1984; Webster & Watson, 2002). For instance, Weick (1995) argues that references, data, lists of variables, diagrams, and hypotheses all fall short of the standard for theory, but are necessary steps in the development of theory. It can be argued that these five items listed by Weick accurately describe the present state of work in Internet auctions. As research into online auctions matures, it too must move from concept discovery and process explanation to theory deepening (Dholakia, 2005a).

We believe this article may be a step towards crafting a comprehensive theoretical explanation of the various phenomena associated with Internet auctions. While our model is not yet full-fledged theory, we believe it incorporates significant findings over the past decade and is a meaningful advance towards cohesion, synthesis, and most importantly, towards explanation of phenomena associated with Internet auctions. This article will proceed as follows. We will first examine existing literature to introduce the topic of auctions and, more specifically, Internet auctions. Second, we will examine the dependent variables that have been most frequently used to quantify the outcome of Internet auctions. Third, we will compile a list of the independent variables that have been examined as determinants of auction outcome and note the general findings regarding each of these variables. Fourth, we will place the aforementioned variables in a conceptual model that may serve as a framework for future inquiry into the various aspects of the Internet auction phenomenon. We will note the role various existing theories may play in explaining phenomena associated with Internet auctions. We will conclude by noting the implications of our findings for both scholars as well as practitioners.

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