

## Endgame: Optimal Selling Strategies in Online Auctions

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### Principal Topic

Online auctions have emerged as a major opportunity for individuals to start businesses or for established businesses to diversify and grow their markets. To-date, research interest has focused largely on the technological entrepreneur rather than the Internet based (cyber) entrepreneur. The aim of this study was to examine the behaviour of participants in online auctions, measuring their response to actual market conditions and rules. Do online markets react to quality uncertainty (Akerlof, 1970) in the same way as off line markets, and is the contention that Internet shopping emphasises cost reduction over brand-based differentiation (Pine and Gilmore, 1999) valid? The purpose of this paper is to present findings from an analysis of secondary data collected from online auctions. By better understanding buyer behaviour in online auctions, sellers will be able to select the best selling strategies for individual and/or unique businesses types.

### Methodology/Key Propositions

With the cooperation of an existing online book seller, the study examined three main auction-start pricing strategies; fully priced, cost priced and below cost priced. Auction duration and postage cost were also varied and the combined effects on buyer behaviour established. Data from 1,200 auctions was provided for the study. While the study primarily took an empirical approach, a combination of quantitative and qualitative methods were used as information asymmetries play an important role in online auctions for both buyers and sellers. Subjective opinions of optimal selling strategies were gathered from online discussion boards, to allow comparisons to be made between auction user perceptions and measured auction outcomes.

### Results and Implications

Even within disparate product categories the study found that optimal selling strategies are predictable. The mix of start price, auction duration and postage cost, effects product sale price in a manner that indicates the desirability of high start pricing. In the rapidly evolving online auction marketplace there is a need for ongoing evaluation of buyer preferences to aid seller pricing strategies. Contrary to the findings of earlier Internet auction studies that focused on cost reduction as primary buyer motivators, this study found that buyers are drawing on a wide range of experiential value sources. Average selling prices on auction sites may actually have increased, although it is acknowledged that some product category prices may have fallen due to over supply. Auction selling management will become increasingly important.

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