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The effect of self construal on the intention to bid on an online group-buying auction

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ABSTRACT

People attempt to reduce the risk and uncertainty they bear in an online group-buying auction by showing conformity behaviors and by bidding on popular auctions, thus, auction popularity is critical for their intention to bid. However, not everyone is concerned about the risk and uncertainty encountered. This research aims to show that different type of self construal (i.e., independent or interdependent) changes people's propensity for risk, and thus, systematically alters the effect of auction popularity on their intention to bid. Results from two experiments show (1) that for people with interdependent self construal, auction popularity has greater effect on their intention to bid than their independent counterparts; (2) that for people with independent self construal, their intention to bid is higher than their interdependent counterparts when the auction is unpopular. These findings have implications for defining target customers and the formulation of effective marketing communications.

1. Introduction

Online group-buying auction are deals that consist of discounted products and services posted on websites such as Groupon.com and LivingSocial.com. Typical online group buying sets a price-cut threshold—a required minimum number of buyers of a product or a service. If the number of buyers is higher than the preset threshold, all consumers receive a price discount. However, a sale item's final price depends on the total number of bidders; thus, online group-buying consumers often face some level of uncertainty.

Consumers are unsure about the final price they will pay for an online group-buying item when the auction is of multiple price-drop level. For instance, the target's original price may be $1800; then, the price drops to $1700 with 5 bidders, drop to $1600 with 15 bidders, and the lowest price drop to $1500 with more than 40 bidders. Because the final price a consumer will pay for the target item depends on the number of bidders; it will not be known until the auction closes, the feeling of price uncertainty occurs (Chen, Chen, & Song, 2007; Chen, Kauffman, Liu, & Song, 2010). In addition to price uncertainty, consumers also face the risk of a failed auction. That is, the auction may not meet the minimum required number of bidders which cause the auction to fail, with no final auction price reached and no transaction could be made, even though participants have put their bids. Bidding on a failed auction can be frustrations for bidders and leads to the feeling of psychological uncertainty (Kauffman, Lai, & Lin, 2010; Lim, 2003). Online group-buying auction participants do not know in advance whether the auction will fail or how much discount they will receive. To avoid these uncertainties, consumers postpone their bids until the auction is very likely to close, a phenomenon called inertia.

In addition to inertia, consumers also reduce the risk and uncertainty they bear by bidding on popular auctions and staying away from auctions in which few people show interest. This phenomenon is called the externality effect, which causes consumers to express a greater willingness-to-bid on a group-buying auction with high consumer participation (Kauffman, Lai, & Lin, 2010). Furthermore, the cycle-ending effect, which refers to the phenomenon that people's likelihood of bidding increases when the number of bidders crosses a preset price-drop threshold (Kauffman, Lai, & Lin, 2010), enables consumers to see the prospect of an attainable discount and a lower risk. According to these effects, the number of current bidders is essential (i.e., the popularity of the auction) to determine the buying intention of an online group-buying auction. People attempt to reduce the risk and uncertainty they bear by showing conformity behaviors and by bidding on popular auctions.

Prior research on online group-buying auctions highlights the effect of popularity on the purchase intention of an online group-buying auction (i.e., Kauffman, Lai, & Ho, 2010; Kauffman, Lai, &

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Lin, 2010; Luo, Andrews, Song, & Aspara, 2014). However, the first bid must be made for an online group-buying auction to become popular; that is, some pioneers must place their bids before an online group-buying auction becomes popular. The presence of pioneers contributes to the popularity of an auction and increases other consumers' willingness to bid. Nevertheless, why these consumers are willing to take risks and bid on unpopular auctions remains undiscovered.

People reduce the risk they face by engaging in conformity and by bidding on popular auctions, thus, the effect of auction popularity on people's intention to bid depend on their risk propensity. However, people's risk propensity varies with personality; that is, avoiding risk and uncertainty related to a buying decision is not a priority for some. For instance, people with a promotion focus take more risks than those with a prevention focus (Chernev, 2009; Crowe & Higgins, 1997; Liberman, Idson, Camacho, & Higgins, 1999). Moreover, self-construal also affects propensity for risk. Specifically, people with interdependent self-construal are prone to maintain connections with others, focus on avoiding mistakes (Lee, Aaker, & Gardner, 2000), and tend to be risk averse. By contrast, those with independent self-construal may focus on positive features of the self and potential gains in situations they encounter (Lee et al., 2000). Thus, they tend to be promotion oriented, focus on gains rather than losses, and exhibit risk-taking behavior (Chernev, 2009; Crowe & Higgins, 1997; Hamilton & Biehal, 2005).

The present research argues that the effect of auction popularity on people's intention to bid depends on their risk propensity, which is influenced by their state of self-construal. Specifically, people with interdependent self-construal are more risk averse and engage in more conformity behavior than their independent counterparts. Thus, their intention to bid is influenced by auction popularity. By contrast, consumers with independent self-construal tend to be risk taking; thus, auction popularity has little effect on their intentions to bid. Prior studies have yet to analyze this research issue. Two studies were employed to test these conjectures. Study 1 tested the effect of self-construal on people's intention to bid on an auction involving tangible goods. Study 2 investigated the effect of self-construal on people's intention to bid on an auction involving a service.

2. Theoretical background

2.1. Auction popularity

Prior research reported three specific characteristics of online group buying auctions: externality effects, cycle-ending effects (Kauffman & Wang, 2001, 2002), and startup inertia (Kauffman, Lai, & Ho, 2010). First, externality effects—also called the network effect—refer to the phenomenon that consumer participation in an auction generates bids and orders from other consumers (Economides, 1996; Kauffman, Lai, & Lin, 2010; Liebowitz & Margolis, 1994; Luo et al., 2014). Externality effects arise for two reasons. First, the popularity of an online group-buying auction can create an information cascade with signals of deal attractiveness and quality (Bikhchandani, Hirshleifer, & Welch, 1998), which reduces consumers' uncertainty and risk related to an auction. Second, observing the collective actions of prior buyers enables the focal customer to infer deal worth (Iyengar, Van den Bulte, & Valente, 2011; McShane, Bradlow, & Berger, 2012). In sum, the more popular an online group-buying auction is, the stronger the desirability and worth of the auction, causing more consumers to participate in the auction.

Second, the cycle-ending effect, also called the price drop effect, refers to the phenomenon that once the number of bids over the price-drop threshold, the density, and the number of new bids increases (Kauffman & Wang, 2001; Kauffman, Lai, & Lin, 2010). An online group buying typically possesses a preset price-drop threshold. If the number of buyers is more than the preset threshold, then all participants of the group-buying auction receive a price discount. Accordingly, the prospect of a realizable price discount arises as current bids exceed the preset threshold. As the price falls from one price quantity bucket to the next lower one, because consumers see an attainable benefit, they become more willing to make a bid. In other words, potential buyers, who have been waiting for the price discount to become attainable, may make their purchase decision at that time.

The third characteristic is startup inertia (Kauffman, Lai, & Ho, 2010). Inertia represents a rigid continuance of the status quo. The status quo bias may be the result of rational decision making, whereby people takes into account the costs (real cost, perceived cost and psychological cost) of switching from the status quo to a new decision, and chooses not to make the switch (Kim & Kankanhalli, 2009; Polites & Karahanna, 2012). For instance, uncertainty about the benefits of employing new information systems, due to the user having limited knowledge of them and perhaps no hands-on experience trying them out, may lead people to stick to the currently-used incumbent information system as a "known quantity" (Polites & Karahanna, 2012). In an online group-buying auction, due to only a few or no bidders participate in the early stages of the auction, potential consumers' concern for risk and uncertainty arise because they do not know whether the auction will close successfully, are uncertain about the final price of the auction, and suspect doubtful deal quality. To protect themselves from these risks and uncertainties, bidders are inclined to wait until the auction has enough bids from other consumers. That is, to reduce the risk and uncertainty that potential consumers bear, when the potential benefit of switching to new decision (in this research, switch from placing no bids to make bids) is not guaranteed, consumers tend to postpone their bids, wait for other consumers to join the auction and choose to be status quo, thus, inertia occurs. The inertia ends until enough bids have been placed and benefits of the auction are attainable.

To sum, engaging in the above effects, people reduce the risk and uncertainty they encountered in an online group-buying auction through bidding on popular auctions.

2.2. Self-construal

To reduce the risk and uncertainty that consumers bear, they postpone their decisions, wait until enough bids have been placed, and bid on popular auctions. However, not everyone is concerned about the risk and uncertainty encountered. Prior research argues that people's propensity for risk may be influenced by their state of self-construal (Hamilton & Biehal, 2005; Mandel, 2003). Typically, self-construal is defined as the way in which individuals view themselves in relation to others and consists in two types: interdependent and independent. People with interdependent self-construal are prone to maintain connectedness and harmony with others. Within such construal, the self becomes most meaningful and complete when cast in the appropriate social relationship. When people attempt to maintain connections with others, they may focus on fulfilling obligations and avoiding mistakes, and may even focus on the potential negative aspects of the self and situations in an attempt to avoid future social mishaps (Lee et al., 2000). Thus, they tend to be prevention oriented and focus on losses rather than gains (Markus & Kitayama, 1991), seek security and safety, avoid negative outcomes and undesired end states, and show risk-averse behavior (Chernev, 2009; Crowe & Higgins, 1997; Hamilton & Biehal, 2005).

By contrast, people with independent self-construal heavily