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The seller's listing strategy in online auctions: Evidence from eBay



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ABSTRACT

This paper studies the seller's online listing strategy and its consequences. By focusing on the fixed-price posting, buy-it-now auction and regular auction, we empirically investigate how the sellers choose the listing format and its associated strategic instruments to better understand their strategic behavior. An empirical model that addresses plausible concerns about sample selection bias and endogeneity is constructed to capture a seller's strategic behavior and examine how auction outcomes are related to this behavior. Based on the estimated model, we then conduct a counterfactual analysis. We find a tradeoff between the expected revenue and sale duration for the three listing formats.

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1. Introduction

The development of the Internet has made online auctions not only one of the most important channels for C2C transactions but also a full-scale research area. However,

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most existing studies focus on the bidder's behavior under various transaction rules,¹ and relatively few studies discuss the seller's strategy.

Although the eBay platform provides several sales mechanisms for sellers to list their items, they can be categorized into two types of listing formats, the auction style listing and the fixed-price style listing. The former contains two major formats to conduct an auction. In the first, a seller lists an item with a starting bid, and the highest bidder wins the item. We will call it the "regular auction" (RA) format. In the second, a seller posts a starting bid as well as a buy-it-now (BIN) price, so that buyers can not only place competitive bids but also buy out the item immediately by paying the BIN price. We will call it the "buy-it-now auction" format or "auction with BIN option" (ABIN) in our following discussion. It is important to emphasize that the buy-it-now option on eBay is temporary: Once a bidder places a bid before any bidder exercises the buy-it-now option, this option disappears and ABIN reduces to a regular auction. The other listing style, the fixed-price (FP) style,² works in an obvious way. The seller simply posts a BIN price, and any buyer who is willing to pay the price can buy the item immediately as long as it is still available. Buyers are not allowed to place competitive bids. Each of the three listing formats (RA, ABIN and FP) occupy a substantial proportion of eBay listings.³ The primary issue for the seller is thus to optimally set the starting price, BIN price and other relevant strategic variables to serve her purpose in listing the item.⁴

The purpose of this paper is to empirically investigate: (i) what lies behind a seller's strategic consideration in adopting a listing format, as well as the choice of its associated strategic instruments; (ii) how the auction outcomes are related to the seller's listing strategy; and (iii) what the tradeoffs between these formats are. Using data collected from eBay, we construct an empirical model to capture a seller's strategic behavior and the auction outcomes while addressing plausible concerns about sample selection bias and endogeneity. With the estimated model, we then conduct a counterfactual analysis to investigate the tradeoff involved in the three sales mechanisms.

There are several theoretical works which discuss a seller's choice between different sale channels. For instance, Wang (1993), Harris and Raviv (1981), Kultti (1999), Ziegler and Lazear (2003) and Etzion et al. (2006) show that the optimality of price posting vs. auction depends on the possibility of capacity constraint, the dispersion of bidders' valuations, and the seller's or buyer's time preference, respectively. Chen et al. (2017) have shown that the degree of the seller's time impatience completely characterizes the seller's choice between RA, FP, and ABIN on eBay. Furthermore, the seller's optimal listing strategy is achieved by manipulating the values of the BIN price and the starting bid.

¹ For a survey of early literature in this regard, please see Ockenfels et al. (2006) and Steiglitz (2007).

² eBay facilitates a fixed-price listing by allowing the seller to post a BIN price only, which serves as the posted price.

³ For example, Hasker and Sickles (2010) have shown that all three formats are substantial, and account for almost all formats of listings.

⁴ On the eBay platform, there is another type of listing, called "best offer" listing, which allows a buyer to offer a price to the seller. Since the proportion of the best offer listings is less than 2% in our sample, and it is essentially a price-bargaining mechanism, we exclude them in our analysis. For a study on this mechanism, please see Huang et al. (2013).

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