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The Effect of Social Cues on Sniping Behavior in Internet Auctions: Field Evidence and a Lab Experiment

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Abstract

This research explores how social cues presented in an online auction affect sniping behavior. Sniping is a strategy of placing a bid on an item in the very ending stages of an auction with a pre-determined ending time in an attempt to win the auction. Such a strategy conceals the intentions of the bidder until the last moments of the auction and minimizes the possibility of other opposing bidders submitting higher bids due to the short period of time left to respond. The research includes two field studies and a lab experiment indicating that sniping appears to be influenced by social factors, that is, when there are a greater number of bidders in the auction or the auction site provides social information about the bidders, the relative use of sniping increases. This research supports the perspective that bidders rely on others' bidding behavior and characteristics as an indication of the true value of the item on sale, and is one of the first studies in the literature which takes this perspective.

Keywords: Auctions; Bidding behavior; Online auctions; Social cues; Sniping

Background

Auctions are among the most popular mechanisms to conduct business transactions these days. Smith (1989) argues that auctions are special in that they are social processes capable of defining and resolving inherently ambiguous situations. Internet auctions are software-based implementations of the traditional auction format. The popularity of internet auctions has led to the expansion of various bidding strategies (Bapna et al. 2004), one of which is sniping, broadly defined as bidding at the very ending stages of the auction (typically defined as being within the last few minutes of the auction), with the intention of leaving other bidders no time to respond to raise their bids.

The study of sniping is important for three reasons. First, it is a phenomenon that is frequently observed in auctions with a specified end time (i.e., hard close) (Roth and Ockenfels 2002). Secondly, it is a strategy which is not without controversy, causing psychological regret when a bidder loses an item in the last seconds of the auction (Ariely and Simonson 2003), resulting in the creation of alternative auction sites and models to avoid the phenomenon (e.g., uBid, overstock, and Swoopo). Such sites effectively eliminate the presence of sniping by extending the auction length by a fixed amount of time if a bid comes in during the last moments of the auction. Finally, sniping has been shown to impact the final price that consumers pay for a good in an auction context when compared to bidding earlier on in an auction (Roth and Ockenfels 2002; Wenyan and Bolivar 2008). When combined with the fact that it is an auction strategy which is frequently used (Roth and Ockenfels 2002), this makes it worthy of study. While sniping seemingly allows the bidder to remain camouflaged until he/she is ready to strike, this very notion suggests that it is a social phenomenon. That is, the bidder is accounting in some form for the presence of others and deriving his/her strategy as a function of others. Wenyan and Bolivar (2008) assume that sniping is used for occasions in which bidders

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are "extremely anxious to win the item" and under conditions when the item is rare. While this may be true, we shall see that sniping is frequently used even for common items, and therefore the explanation for why it is used must go beyond the simple consideration of the particular item up for sale. Therefore, the present study was undertaken to examine whether sniping behavior can be explained at least in part from a social perspective, a view which surprisingly has not been investigated in any detail, as the phenomenon has traditionally been studied in the domain of economics. As noted, the prevalent use of sniping in on-line auctions has been reported in several studies. Roth and Ockenfels (2002) report that 40% of all tested eBay Computer auction bids and 59% of all tested eBay Antique auction bids occurred in the last five minutes, while Gray and Reiley (2007) report that across four product categories, bidding occurred within the last five minutes 46.7% of the time. Such a prevalent usage of sniping suggests that consumers may in part be motivated to snipe based upon certain cues that are characteristic of the specific auction they are participating in. As noted, Wenyan and Bolivar (2008) have suggested that one such cue is the rarity of the item. However such an observation does not explain why sniping occurred 40% of the time in the computer category (Roth and Ockenfels 2002); or 50% of the time for Playstation 2 (Wenyan and Bolivar 2008). Clearly, such items can hardly be considered rare, as similar or identical computers and Playstation sets could be purchased many times in a given day on eBay from a myriad of sellers inclusive of the same seller.

The key to why sniping occurs may be better understood by focusing on the negative emotions felt by a bidder when an item is lost at the last possible moment. Indeed Ariely and Simonson (2003) reported on a larger "Loser's" than "Winner's" curse when bidders participated in on-line auctions. That is, the bidder was significantly more concerned with the regret of not having bid high enough to win the item than of bidding too high upon winning. To avoid the emotional trauma which occurs when one is faced with the regret of a loss, the importance of using a strategy which is believed to have a better chance of winning becomes paramount. This may be particularly the case when your biggest competitor is identified as the winner! Enter the strategy of sniping, where the higher bid is launched at a point in the auction when the end is near, leaving no time left for the competition to respond. This perspective is consistent with Wenyan and Bolivar's perspective of the use of sniping as a strategy when one is "extremely anxious to win the item."

Using online auction data from the sale of notebooks, Chan, Kadiyali, and Park (2007) use breadth (how many items similar to the present item in product attributes are on sale concurrently) and depth measures (how many of those similar items on sale concurrently also are of the same brand) to characterize the market competition. They argue that bidder's Willingness To Pay (WTP) in the first-price English Auction framework is a function of the auction market environment which includes a measure of competition among bidders and bidders' and sellers' characteristics. Hence an explanation of sniping behavior might be found in an examination of the interpersonal drivers of sniping, and the behavior may be better understood as a function of a social expression intrinsic to the auction itself (e.g., the amount of interest in the auction through the knowledge of who and how many participants are bidding or watching). These are part of the online auction design attributes that can be controlled by the auction site and the seller. But sniping is only important, if it is perceived by participants to be an effective and winning strategy. It is to this issue that we turn next.

Having a Higher Probability to Win

Brint (2003, p 1183) astutely comments that auction participants may overestimate their success in sniping simply because "late bids that would not be successful would not be placed as they would be below the current price." That is, snipers may not be able to participate in some auctions simply because the price at that late point in the auction exceeds the maximum amount they are willing to snipe, and they do not attribute these occasions as a failure of the sniping strategy!

To determine whether online auctions participants believed sniping to be an effective strategy, a web-survey was conducted among 103 bidders from the age group of 25–44. The data was collected in October 2010 confirming that frequent snipers rated the probability of winning the auction through the use of a sniping strategy as significantly higher than in-frequent snipers (6.28 vs. 4.33, $F(101)=6.54$, $p<.02$,[1] one tailed t-test). This confirms the value of sniping for those who snipe more frequently. Additional empirical evidence further confirmed that people who bid just a single time, during the last moments of an eBay auction, are the most likely to win (Yang and Kang 2006).

Theoretical Reasons for Why Consumers Snipe…The Economic Perspective

A number of economists have sought an explanation for the prevalence of sniping behavior but with conflicting results. These explanations include: (1) tacit collusion, (2) reaction to a naïve bidder, (3) multiple listings, (4) protection from squeezing and (5) ending rules of the auction. The tacit collusion argument for sniping (Ockenfels and Roth 2002) hinges on the fact that a late bid may not go through and cannot be retaliated against. This would lead to softened competition and lower prices as some retaliatory bids have a probabilistically non-zero chance of not arriving in time, particularly those that are in response to a snipe. Several researchers (e.g., Ku, Malhotra, and Murnighan 2003; Gonzalez, Hasker, and Sickles 2004) however have found empirical results to be inconsistent with the tacit collusion hypothesis. More recently, Ockenfels and Roth (2006) proposed that sniping may be a response to naïve bidders. Their theoretical model identifies a naïve bidder in an online auction as an individual who behaves as if in a live auction, upping his/her bids as a response to others until he/she reaches a reservation price (a "nibbler"). These authors show that sniping is an equilibrium strategy when a competitor is facing such a bidder as it may not allow the nibbler to respond to a

[1] The question asked in the survey was: "To what degree would you agree or disagree with the following statements: When bidders snipe, they have a higher probability of winning the auction? (1—Strongly Disagree; 7—Strongly Agree)".