The On-line Auction Phenomenon: Growth, Strategies, Promise, and Problems

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Internet auctions are a remarkable modern-day phenomenon. Some of the “dot com” sites, such as eBay and Amazon.com, have become household names. Others like Sothebys.com and Yahoo! Auctions have been built around brands that are already well known. Most others (e.g., uBid, DealDeal.com, etc.) are less familiar but are gaining reputations as viable markets for the exchange of goods and services. An increasing number of consumers are visiting and trading on Internet auction sites. Some of these buyers and sellers are new to auctions entirely, let alone to on-line auctions. Others have some expertise in auctions and therefore bid strategically, taking

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into consideration the format and rules of the auction site and the probable bidding behavior of competing bidders who may be novices or experts.

Some recent research (Lucking-Reiley 2000a; 2000c) provides some eye-opening statistics regarding the huge growth in Internet auctions: In the autumn of 1998, 142 auction websites, 90 percent of which conducted business-to-consumer (B2C) transactions, generated almost $100 million of trade each month. For eBay, the industry leader, transaction volume grew from $70 million in November of 1998 to $190 million in July of 1999. Over this same time period, eBay experienced a 13 percent monthly growth rate. Estimates suggest that, in 2000, eBay had five million auctions on its site at any given time and that it hosted two million transactions each week (Lucking-Reiley 2000c). With eBay only six years old, the Internet auction market has clearly grown extremely quickly, and the impact on the way consumers purchase goods is striking. In addition to B2C auction sites, there are an increasing number of sites that provide an arena for business-to-business (B2B) transactions. These sites use auctions to offer large organizations a marketplace to trade on such items as shipping routes and machinery parts.

All types of goods and services are now being auctioned on the Internet, ranging from computers and electronics to vacation packages, from household goods, wine, and art to limited editions of books and collectibles. For many people, on-line auctions have become a hobby or an enjoyable pastime, while for numerous others, an integral part of their daily routine. For instance, eBay has set up a “community” link that consists of numerous chat rooms and help boards tailored to individuals who want to talk about their on-line bidding experiences, both good and bad.

All of this activity has not been lost on researchers from various fields who have begun to study Internet auctions. Some researchers are trying to grasp the reasons underlying the success of on-line auction sites while others are using the available data to develop or refine theories of auction design and bidding strategy. Still others are interested in the potential consequences (sociological, psychological, and economic) of a shift from face-to-face to computer-mediated transactions.

This essay, which summarizes discussions between auction practitioners and researchers at a September 2000 conference at Northwestern University, 1 reviews recent trends in the types of Internet auction sites that have proliferated and research relating to on-line bidder behavior and Internet auction design. First, we describe the growth of on-line auction sites and address some of the key benefits and costs of these auctions. Next, we describe bidders and their bidding, with a focus on how bidding strategies differ across different auction formats. Each section will offer some observations about emerging trends and potential areas of research. We believe there is immense potential for knowledge gain in studying on-line auctions, which necessitates increased dialogue and cooperation between auction sites and researchers in uncovering this knowledge. Through communication and collaboration, researchers will be afforded an opportunity to gather