

# **BRAND EQUITY IN AN ONLINE ENVIRONMENT: VALUATION EFFECTS WITHIN EBAY AUCTIONS**

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## **ABSTRACT**

Brand equity is the positive or negative value a brand conveys to a product beyond the attributes of an otherwise identical unbranded product [1]. The brand, name and/or mark, associated with a product can make it easy for potential consumers to remember, associate with product benefits, as well as clearly distinguish from close substitutes offered by competitors. Products with positive brand equity can enhance purchase behavior by reducing risk perceptions and simplifying the decision process. For example, price premiums are often paid for well known brands with favorable associations in the minds of consumers [8]. Recognition of this potential has made building positive brand equity an increasingly important management responsibility [7]. Brand equity enhancement can also provide opportunities to achieve a long term advantage even when competing products are heterogeneous in nature [10].

The characteristics of a product class, previous consumption experience, and industry marketing activities are common antecedents of brand equity formation [c.f. 3]. Marketing managers who enhance brand equity in the minds of consumers convey distinct advantages to their products. People who are aware of a brand and have had either a previous satisfying experience or otherwise acquired compelling brand meanings become more likely purchasers. Those who consume tend to be loyal and may, in many circumstances, insist retailers stock their preferred brands, buy more, and/or support higher margin items. The cost of acquiring new customers may also be reduced below that which would have otherwise been necessary due to favorable word of mouth from satisfied consumers. These potential brand equity benefits should be greatest when market circumstances create more uncertainty rather than less. Time pressure, the inability to inspect products, or sellers who are relatively unknown to the buyer are market features which can increase uncertainty.

Internet auctions present just such a market environment [9]. Potential buyers are typically unable to physically inspect the product being offered, bidders are often geographically distant from sellers who may misrepresent their offers by accident or design, and internet auctions are usually quite limited in duration. Not too surprisingly, several previous studies have investigated consumer behavior consistent with higher perceptions of risk during internet auctions. Bidders in eBay auctions have been shown to gravitate toward items with more bids and ignore auctions of equivalent items which are a superior value [4]. Auction participants inferred appropriate behaviors by observing other bidders. This tendency was exacerbated whenever potential buyers were less experienced.

Similarly, the prior experience of internet bidders has been shown to have a direct influence on bidding strategies. Wang and Hu [12] found that internet bidders were more likely to adapt bidding strategies and submit bids equal to their maximum willingness to pay as their experience increased although many very experienced bidders continued to employ strategies inconsistent with efficient auction theory. Internet auction participants also respond very differently to auction sellers with a strong reputation,

whether positive or negative [4]. Their bidding strategies reflected, in part, discrepant perceptions of seller reliability. Other studies describe how the uncertainty associated with internet auctions provides participants with an incentive to either bid incrementally or bid just before an auction ends [6].

The extent to which branding may reduce uncertainty and affect bidder value perceptions has not been similarly investigated. This seems an important omission given the theoretical relevance of brand equity as well as its prevalent application in general marketing practice. Internet auctions have become increasingly popular as an effective, if not efficient, means of buying and selling goods and services [11]. Such auction formats represent an enormous market that brings together a large number of potential buyers and sellers, an extensive collection of goods and services, as well as a limited time frame within which to complete a transaction. Potential internet auction bidders, however, seldom have all the traditional information resources upon which consumers have learned to comfortably rely. This raises the possibility that internet auction participants will depend more on brand related knowledge and employ bidding strategies consistent with heightened valuations of brand related information.

Our study empirically examines how brand related information effects consumer valuations and online auction behavior on eBay, one of the most well-known internet auction websites. To do so, we randomly selected auctions on eBay for branded products with discrepant price premiums (certified coins) and looked for significant mean differences in both the prices obtained as well as the amount and intensity of bidding behavior across auctions.

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