

# LOW BIDDING OR SERVICE PROMOTION: THEIR IMPACTS ON SELLER'S PROFITS AND CONSUMER'S FAIRNESS PERCEPTION

Rong-Da Liang, Dept of Leisure and Recreation Management, National Kaohsiung University of Hospitality and Tourism, Kaohsiung, Taiwan, 800, 07-8060505, [rdliang@nkuht.edu.tw](mailto:rdliang@nkuht.edu.tw)  
Houn-Gee Chen, Dept of Business Administration, National Taiwan University, Taipei, Taiwan 106, 02-33669653, [hgchen@ntu.edu.tw](mailto:hgchen@ntu.edu.tw)  
Vince Hui, Dept of Business Administration, National Taiwan University, Taipei, Taiwan 106, 02-33669653, [vince116@gmail.com](mailto:vince116@gmail.com)

## ABSTRACT

Online auction features convenient interaction and rich information, and attracts billions of users to shop online every year. However, the impact of information asymmetry made on the buyers and the sellers in online auctions is likely to cause uncertainty and elevate the risk of breaching a contract, particularly when the buyer is unable to know whether the seller is trustworthy. Previous studies primarily focus on either the seller or the buyer side and lack a simultaneous discussion on the perception and behavior from both perspectives. Such limited perspectives have resulted in inconsistent relationships between the seller (e.g., profits) and the buyer (e.g., fairness) from the complexity of the online auction mechanism. This study thus aims to understand how the online auction marketing strategy affects the buyer and seller in attaining value. We cooperate with a local chain restaurant in Taiwan to establish online auction for meal vouchers featuring different start bidding prices and promotion programs. A 2 (start bidding price: high vs. low) x 2 (promotions: price vs. service) field experiment was conducted on Yahoo!Kimo auction website to examine their impacts on the seller's profits and buyer's perception of fairness. Data from 60 valid experiments were collected and analyzed. The results indicate that the high start bidding price combined with the service promotion (differentiation) and the low start bidding price combined with price promotion (low cost) produce higher seller's profit. In addition, consumers have a higher perception of fairness on service promotion combined with the low start bidding price. This apparently inconsistent phenomenon implies the existence of a marketing issue regarding how the sellers could provide buyers with correct and fair cues. A further investigation indicated that the auctions featuring low cost and differentiation (service) combinations resulted in a higher percentage of repurchases (15% vs. 42%). The results of this real field experiment might provide the entrepreneur the basis for better design of online auction sale-combinations by considering both the seller and buyer perspectives.

**Keywords:** online auction, fairness, seller's profits, bidding price, sales promotion

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