

Online Auction Market of Preannounced Product: A Study of New XBOX 360 Console

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ABSTRACT

This article examines how an online auction of a preannounced product, the Microsoft Xbox 360, proceeds and performs before its official launch on eBay. Data from the eBay marketplace is examined after the date of the preannouncement in May 2005 until the launch in November 2005. Specifically, the authors look to see if auction success rates from one day affect the success rates on the following day. They also examine if the winning bid prices of one day affect the winning bids on the following day. The results show that auction success rates on one day do not have a significant impact on the following day's success rates. Regarding winning bid prices, there is strong evidence that the winning price series is a nonstationary process, and daily prices show a reverse trending pattern. The authors discuss the managerial implications of their findings.

KEYWORDS

Autoregression, eBay, Marketing Strategy, Marketplace for Preannounced Product, New Product, Online Auction, Time Series, XBOX360

1. INTRODUCTION

The first online auction was conducted in California by Pierre Omidyar, an Iranian-American computer programmer in 1995. His site, The AuctionWeb, would evolve into eBay (Cohen, 2003). Since that time, eBay has become the largest C-to-C (C2C) online auction platform. There is also a significant B-to-C (B2C) presence. According to eBay's Q2 2018 Fast Facts (eBay, 2018) there are 1.1 billion listings on their website with 175 million buyers.

There are many benefits of using an online auction, such as eBay, for sellers. All sellers can access a base of international customers, increasing their sales potential. A seller can provide products quickly, easily, and at lower costs than through traditional methods. At times, depending on the merchandise and circumstances, products can be offered at premium prices. These auctions provide a means of expanding a company's customer base.

Online auctions are also a boon to buyers. Access to products (both new and used items) is now 24-hour availability, whereby a buyer can enjoy instant gratification plus interactivity with the seller

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and other buyers (Hoffman and Novak, 1996). This environment can provide customers with more control over price. Another attribute of the online auction is the ability for the buyer to increase her/his learning about the product, product category, and brands (Van den Poel and Leunis, 1999). The cost to the buyer of searching for the products is dramatically reduced, yet at the same time, the available purchasing options are increased (Machlis, 1998).

New products might be sold in online auctions after new product preannouncements even before the official market launch. That is, the market for the new products is available even if they are not physically available to both sellers and buyers. Preannouncement of new products is a common practice especially with consumer technology products. There are reasons for this. The preannouncement of the new product can signal to the user of that brand that a better experience is on the way (Lilly and Walters, 1997). The new product can also draw in new consumers with similar wants, needs, tastes, providing a reason to switch from their current brand (Bayus and Putsis 1999).

The preannouncement of new products on eBay is our focus. The new product that we use for this analysis is the Microsoft Xbox 360, a video game console product and the second-generation of the Xbox brand, launched in November 2005. We want to understand not only the basic features of an online auction market of a preannounced product but also the behavior of sellers and bidders.

In the case of eBay, a seller posts a product, either with a reserve price or at a price for immediate purchase, where no bidding is involved. For bidding products, there is a set time for the auction process. Potential buyers place bids for the product. All bidders or potential bidders can see the highest bid as well as the bid history. When the end of the auction nears, bidders can evaluate the bid history and determine if they want to make a final offer. Generally, if the product is more in demand, the higher the number of bids and bid price volatility. Sometimes, demand and volatility appear late in the process as many bidders wait until the last moment to make their strategic bids.

Although online auctions of existing products have gained the attention of researchers and many literature contributions have been made, little has been examined regarding sellers and buyers, auction success rates, and auction winning bid prices for the preannounced product market. In this regard, we look at a couple of questions for this unique market:

1. What does the preannounced product market at eBay look like?
2. Do the success rates for the auctions on one day affect the success rates on the following day?
3. Do the winning bid prices on one day have any effect on the following day's prices?

We examine 18,186 auction listings for the new Xbox 360 console before its official launch. Based on our data, we offer some insights into sellers' and buyers' behavior as well as the auction outcome performance of online auction listings. We also discuss the managerial implications of our findings and offer some recommendations on new product introduction into markets. To our best knowledge, this is the first study to address the online marketplace for a preannounced new product before its official launch. We believe that this study contributes to the literature in the areas of new product marketing strategy.

2. BACKGROUND

2.1. Online Auctions and Process

Why would someone bid on a new technology product months before it is scheduled to be released? Much of this can be explained as part of technology diffusion. Innovators have a proclivity to take risks with new technology products. They "chase the advances" (Alpert, 1994). Additionally, some of these innovative products are bought just for the thrill of the innovative product itself based on a fascination with something new or innovative (Alpert, 1994).

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