

Chapter 1

To Bid or to Buy?

Online Shoppers' Preferences for Online Purchasing Channels

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ABSTRACT

Online retailing is a rapidly expanding business. There are three major purchasing channels for online shoppers to choose when they conduct online purchasing: (1) shopping in online stores, (2) bidding in online auctions, and (3) direct purchasing in online auctions. Each channel has its strengths and weaknesses, and suits different kinds of online shoppers. This article explores the relationships between online shoppers' lifestyles and their preferences for online purchasing channels. Knowledge about online shoppers' preferences for online purchasing channels helps online retailers place right products in the right channel for the right customers and consequently generate stable revenues. Major findings are: (1) the online shoppers with extravert lifestyle prefer online auctions, (2) the online shoppers with indulgent lifestyle prefer online stores, and (3) the online shoppers with shrewd lifestyle have a more balanced preference for all three purchasing channels. Theoretical and practical implications are discussed.

INTRODUCTION

With the prevalence of the Internet, more and more people are making purchases online (Carrie, 2004; Chou, 2006; Yang, 2007). There are three major purchasing channels for online shoppers when they conduct online purchasing:

1. *shopping in online stores*: the shopper just pays the list price (sometimes plus a shipment fee) to acquire a product.
2. *bidding in online auctions*: the shopper (bidder) must engage in bidding to offer a price he/she is willing to pay for something. When more than one bidder is competing for the same item, the bidders have to raise the

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price for an item by a series of rising bids. The highest bidder wins the item.

3. *direct purchasing in online auctions*: this is an alternative way for buying an item in online auctions. The auctioneer can set a “Buy It Now” price for an item. The bidder can purchase this item instantly at the “Buy It Now” price without engaging in bidding with other bidders.

Each channel has its own features and appeals to different segments of consumers. According to the report of Taiwan’s *Institute for Information Industry* (Yang, 2007), 39.8% of online shoppers prefer shopping in online stores, 35.8% of online shoppers prefer direct purchasing in online auctions, and 22.5% of online shoppers prefer bidding in online auctions.

The purpose of this study, therefore, is to understand online shoppers’ preferences for online purchasing channels. Specifically, this study aims to answer the following questions:

1. Do different kinds of online shoppers prefer different types of online purchasing channels?
2. Do different kinds of online shoppers often purchase different types of products online?
3. Do online shoppers prefer different online purchasing channels when purchasing different types of products?
4. Are these purchasing channels substitutable, and how much are they substitutable?

Understanding these issues can have both theoretical and practical significance. Theoretically, researchers have studied online shoppers in online stores (e.g., Rohm & Swaminathan, 2004; Childers et al., 2001) and in online auctions (e.g., Dholakia, 2005; Bapna et al., 2004; Ariely & Simonson, 2003) separately, but not jointly. Recognizing the fact that online stores and online auctions are both purchasing channels for online shopping, this study examines these two channels

jointly to fill in the blank of existing knowledge. Practically, with the knowledge of online shoppers’ preferences for online purchasing channels, firms or individuals selling items online can put right products in right channels to satisfy the right buyers to generate sizable revenues. Besides, network effects are prominent in online auctions and online store services (Tseng, Teng, & Chiang, 2007a, 2007b; Tseng, 2008). This means that if an online purchasing channel can fulfill the transactions satisfactorily, more and more buyers and sellers will gather to that channel, further enhancing its popularity and growth. This self-reinforcement process is an instance of the network effect.

This study explores the above-mentioned questions based on lifestyles of online shoppers because the lifestyle has been a powerful construct for analyzing consumer behavior (Hawkins et al., 2004; Solomon, 2007) and it has been proposed that lifestyle is more effective than personality and social economy in understanding consumers’ purchase decisions (Lesser & Marie, 1986).

The rest of this paper is structured as follows. Related works are reviewed and hypotheses of this study are proposed. Preliminary interviews are then conducted to obtain a general understanding of online shoppers’ preferences in online purchasing channels, followed by a survey to test the hypotheses about the association of online shoppers’ lifestyles, preferred purchasing channels and purchased products. The general discussion section (1) summarizes the main findings, (2) compares them with the findings of earlier related studies, (3) enumerates practical applications of our findings, and (4) discusses the limitations of this study and future research directions.

RELATED WORKS AND HYPOTHESES

Berkman and Gilson (1974) suggested that lifestyle is unified patterns of behavior, which both determine and are determined by consumption.

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