Hot hands or Cold feet of e-Auction Consumers: Aspects of Affect, Construal, Risk and Temporality.

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Abstract

The paper explores affective, construal and risk aspects of consumer’s judgments and decisions at the point of purchasing in e-auctions. Using an eBay example, the paper investigates applicability of psychological theory, revealing a nuanced view of consumer behavior. Observations regarding concert ticket and car sales were utilized in exploring the phenomena. The observations indicated concert tickets to have a sharper raise in prize in comparison to the cars sold, as the auction got close to an ending. Furthermore, the research showed that automatic bidders won most of the auctions. The findings are discussed in terms of a proposed psychological perspective.

A Context of Online Auctions: Aspects of Reputation and Risk

Internet auctions have become a major force in consumer markets. eBay alone account for more than 12.5 million auctions per day in the global marketplace (Peters and Bodkin 2006). The attraction of bidders to eBay and similar auction-based web-sites concerns the thrill of bidding, the draw of a wide variety of products and product categories and according to popular press induces emotional buying tendencies and increases the incidence of impulse buying. Purchasing in auctions is surrounded by emotion laden processes likely to elicit non rational-economic behavior (Smith, 1989). We also see anonymity, accessibility and perceived benefits of lower price or product scarcity are traded-off against perceived risk and the tendency for consumers to impulse buy or indeed “run scared” (Zhang, 2006). While eBay have attempted in recent times to provide some safeguards for bidders, particularly in rating the sellers through reputation indices (Houser and Wooders, 2004), the moral obligation of internet auctioneers to provide mechanisms for reducing induced recklessness among bidders has not been addressed. Perhaps this is understandable as society has not attempted to rigorously analyse consumer behavior in this environment and has instead looked for legal solutions to reduce risk and provide a form of security to bidder through reputation indicators and PayPal services (Gonzalez, 2004).

Negative experiences and behaviors are still to be published in both the academic and popular press. The response of eBay and similar internet auction companies has been to focus on more careful seller and buyer registration, peer feedback on sellers, PayPal options to safeguard cash in e-transactions and investigations into bidding agents who encourage increased bids on behalf of sellers. Bidding agents pose a complex problem to internet auctioneers and as with traditional auctions, prove difficult to control (Jiang et al. 2007). Peer review of sellers appears to improve the bid prices for sellers with good ratings (Zhou and Hwang, 2007). Bolton, Katok and Ockenfels (2004) claim that reputation do increase transactivity but also that the perceived trustworthiness (positive as well as negative) holds for a whole market and are not internalized to specific markets. Comprehensive product information including images and detailed specifications of products is also thought by some authors to reduce perceived risk from the consumer perspective (Flanagin, 2007, Park, Lennon and Stoel, 2005). Reputation is the main means then, by which buyers can clearly differentiate between reliable (honest) and unreliable (dishonest) sellers. This information is crucial to reducing friction in the e-
marketplace and further more, sellers who are honest and who achieve a good reputation, are rewarded with higher prices for their products (Houser and Wooders, 2006, Zhang, 2006, Zhangxi et al. 2006 and Pavlou et al. 2006). However, this is by no means the end of story. While early academic analysts (de Ruiter and van Heck, 2004) argued that internet auctions would be more transparent than conventional buyer-seller encounters, it appears that they are still perceived as risky channels of supply and for good reason. This is despite the positive developments in payment protection and the subsequent increased willingness of consumers to pay for goods on-line (Black, 2005), as well as the reputation feedback systems noted earlier in this paper. While the literature discussed so far in this paper relates mostly to selling, we now turn attention to the behavior of internet auction consumers. While it may have been assumed that consumers would make rational decisions in internet auctions, research shows that this is not the case (Spann and Tellis, 2006). Furthermore, Heejin and Dubinsky (2005) found that a decomposition of attitude components took place during internet purchase decisions which effectively erodes decision rationality and makes space for more affective contributors to influence purchase decisions. Therefore we examine affect, judgment and decision making and aspects of time within the context of online auctions as a potential contributor to less rational decision making.

**At the Intersection of Affect, Judgment, Decision Making and Temporality**

Online auctions have been seen as a multistage decision process with influences of escalation, endowment and self perception potentially raising emotional reactions and increase competitive behavior in online auctions (Ariely and Simonson, 2003). However affect in conjunction to online auctions and time discounting seems to be an aspect attracting little attention. Traditional decision research has mainly viewed judgment and decision making (JDM) as a cognition-expectation-based calculus, emphasizing little on affect (Loewenstein et al. 2001). Making decisions under influence of affect has been considered not to have the same unified output mode as rational decision making do. Recent research has differentiated the debate rendering a difference between affective-based and cognitive-based processes, labeling them as “hot” and “cold” processes (Metcalfe and Mischel, 1999, Loewenstein et al. 2001, Peters et al. 2006). Schwarz (2000) claim that affect may influence cognition and our cognitions will affect the way we feel. But the distinction to which extent one of the processes are superordinate to the other is left out in this paper and where affect is considered to be present it will be labeled as an affective process.

The point of departure is how we construe our environment depending on time discounting. Trope and Lieberman (2003) claim individuals to construe mental representations of events differently, depending on temporal distance to the target. Events that are considered to take place closer in time share characteristics that differ in comparison to events in a more distant future. The differentiation is according to high and low-level construal, where high-level construal refers to temporally distant events while low-level construal refers to events closer in time.

“…High-level construals are relative simple, decontextualized representations that extract the very gist from the available information. These construals consist of general, superordinate, and essential features of events. A defining characteristic of high-level construal features is that changes in these features produce major changes in the meaning of the event. Low-level construals tend to be more concrete and include subordinate, contextual, and incidental features of events. Changes in these features produce relatively minor changes in the meaning of the event. Low-level construals are thus richer in and more detailed but less structured and parsimonious than high-level construals…”Trope and Lieberman, 2003. p. 405.
Trope and Lieberman (2003) outline characteristics for a situation where time affects the representation of a situation, Kahneman’s (2003) work could be seen as a backbone for describing cognitive processing but also describing a situation where affect influence JDM. According to Kahneman (2003), when making judgments, perceptual processes are an initial step. On one side the process is an intuitive system, system one, which encompass processes that are characterized by fast, parallel, automatic, effortless, associative, slow-learning and emotional processing. On the other side the reason based system, system two, leans towards characteristics which are slow, serial, effortful, rule-governed, flexible and neutral. When it comes to content of the information, system two relies on conceptual representations as a main source. System one relies on both conceptual representations as well as more stimulus bound resources which further indicates that system two involves deeper processing of information. Furthermore, Kahneman (2003) claim that some attributes called “natural assessments” are being processed, within system one, in a routinely, automated way without intention or effort. Examples of such “natural assessments” are affective valence and mood. Furthermore, Loewenstein et al. (2001) claim that affective outcomes show steeper time discounting than cognitive outcomes. This means, the larger the temporal distance to an event the more reliance on cognitive outcomes in question of determining value of an option. In contrast, the closer one is to a deadline the more reliance on affective outcomes. Similar findings have been shown when processing resources have been limited, favoring an affective choice on the behalf of a cognitive one (Shiv and Fedorikhin, 1999). In terms of e-auctions this implicates that the characteristics of information, such as how and which information one attend is in line with Kahneman’s (2003) and Trope and Lieberman’s (2003) work. Furthermore Loewenstein et al. (2001) implies that affect outcomes appears more frequent as time is discounting which would increase reliance on affect close to a deadline in e-auctions.

Affective Components of Benefits and Risk Perception

E-auctions seem to be different from other purchasing situations considering that the payment and delivery rarely occur simultaneously (Standifird, 2001). This is to be associated with assessments of risk. Therefore assessing the presence of affect, without risk, in e-auctions would be similar to assessing one side of the coin. Finucane et al. (2000) discussed an affective heuristic, where perceptions of risk and benefits could be influenced by affect. Finucane et al. (2000) stated that analytically, risk and benefits are distinct concepts. Even though, being distinct concepts, they seem to be positively correlated in the environment. A higher risk is also higher benefit also meaning low risk is low benefit. However, the suggested correlation of risk and benefits are often the reverse in people’s minds, meaning high risk is viewed as a low benefit and low benefits are high risk. This negative correlation is stated due to affective influences when assessing the likeability of the general situation. Consulting one’s feelings of “how do I feel about this”, would affect judgments of risk as well as benefits. This would also mean that it would be possible to affect the overall assessment, which in turn would affect risk and benefit, by providing compelling or unconvincing information about an event. The claim provides a situation where information, affect, risk and benefits are closely tied together. Figure 1 describes the relationship of viewing information under positive affect would render in risk being low at the same time as benefit is high. On the other hand, viewing information under negative affect would render in high risk and low benefit assessments (Finucane et al. 2000).
In sum this means, if drawing upon Kahneman (2003), Trope and Lieberman (2003) and Loewenstein et al. (2001), reliance on affect is larger when time is discounting, and Finucane’s et al. (2000), the assessment of risk and benefits is shaped by affect in divergent ways, we have an interesting situation for e-auctions. It is easier to stay rational if the decision in time is distant which promotes “cold feet”. In contrast we propose that individuals, who experience a positive affect in time discounting situations, will develop “hot hands”, due to assessing the risk as being low.

**Empirical Observations**

The empirical research carried out seeks to answer the following questions:

Are there observable and identifiable patterns in auction bidding which facilitate the application of the theories outlined above? What do these theories tell us about auctioneers such as eBay? Since the research is exploratory, case observations were deemed the most appropriate methodology to apply to the e-auction context. Markers, such as more prominent bidding towards the end of the auction could be seen as compatible with a “hot hands” approach. Furthermore, due to limitations regarding access of individual consumer’s affective state we have considered the raise in prize as a marker for an affective, less rational approach. 200 auctions in two product categories (concert tickets and cars), 100 auctions per category, were observed during a four week period. Not all of the cases observed ended in a successful sale (86% for concert tickets and 72% for cars), either because of no bids (9% for concert tickets and 14% for cars) or because bidding failed to reach the reserve price (5% for concert tickets and 14% for cars). The general pattern of bidding over the period of the auction (average 5 days) was for very few bids to be placed in the earlier part of the auction and for the large majority of bids to be placed toward the end of the auction. Bidding became far more frequent toward the end of the auction with new bidders entering late and prices increasing sharply. In a small number of cases, bidding reached a “high” before the end of the auction period and thus new bids were not placed.

Three exemplar cases in each product category were selected which illustrate the general bidding pattern across all cases observed for this study. Table 1 show the last six bids in each auction where multiple bids may have been placed in each case by one bidder. Automatic bidders are seen to win auctions in the majority of these cases although this is far more common in car auctions than in ticket auctions. Early and late bidding is common in all cases although the price rises far more significant in late bids. Automatic bids consist of early bids placed by bidders which are then triggered by either the bid level being reached as in the case of the BMW M3 above, or the final bid being lower than the upper level placed on the automatic bid in the case of the Rod Stewart tickets above.

<table>
<thead>
<tr>
<th>Product</th>
<th>Bid 1</th>
<th>Bid 2</th>
<th>Bid 3</th>
<th>Bid 4</th>
<th>Bid 5</th>
<th>Bid 6</th>
<th>Ending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Streisand</td>
<td>3hrs 41mins</td>
<td>2hrs 33mins</td>
<td>56mins 3hrs</td>
<td>32mins 52secs</td>
<td>32secs 32secs</td>
<td>Late bidder wins Automatic bidder wins</td>
<td></td>
</tr>
<tr>
<td>Stewart</td>
<td>4days 5days</td>
<td>4days 5days</td>
<td>42mins 3hrs</td>
<td>3days 20mins</td>
<td>2hrs 42mins</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Live</td>
<td>2days 2days</td>
<td>2days 2days</td>
<td>54mins 3hrs</td>
<td>53mins 52mins</td>
<td>7days 7days</td>
<td>Automatic bidder wins</td>
<td></td>
</tr>
<tr>
<td>Earth</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MG ZR 3</td>
<td>5 days 6days</td>
<td>2days 10mins</td>
<td>3hrs 1day</td>
<td>1day 9mins</td>
<td>14mins 6days</td>
<td>Late bidder wins Automatic bidder wins Reserve prize not met</td>
<td></td>
</tr>
<tr>
<td>BMW M3</td>
<td>6days 6days</td>
<td>6days 6days</td>
<td>6days 6days</td>
<td>6days 6days</td>
<td>6days 6days</td>
<td></td>
<td></td>
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<tr>
<td>Jeep</td>
<td>2days 2days</td>
<td>2days 2days</td>
<td>2days 2days</td>
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The “buy it now” function allows consumers to purchase the product at a set price. Our research showed that these prices were set at the highest expected bid price for the product. This constitutes a further subtlety on behalf of the auctioneers which seeks to elicit a positive buying response through reducing perceived risk and increasing perceived benefit. The PayPal option is offered on most auction sales through eBay and while it sustains a higher price for the seller, it provides some insurance against fraud for the bidder. While we mention above that PayPal is not entirely secure from a legal perspective, it appears to reduce perceived risk for bidders. Advice and information for both sellers and bidders is comprehensive and includes references to legal issues and regulations of auctions.

Concluding Remarks

On the question of recklessness, it is difficult to say that the evidence is clear regarding consumers making impulsive decisions. In some cases automatic bids will set the highest bid for a bidder before the end of the auction and will thus reduce the risk of adopting a “hot hands” approach. However the data also shows that bids increase in both value and frequency toward the end of each auction. We can perhaps have expected this conclusion but the combined perspectives of the affective heuristic, temporal construal and the steeper fall in affective outcomes as time is discounting, tell us that it is highly likely that some of the bidders will have been swept up in the moment. Most likely displaying a “hot hands” approach in the case of bids lodged or a “cold feet” approach where consumers judged the risk/benefit to be unfavourable. Comparing the two product types one can see that steeper prices and greater numbers of late bids are evident in the ticket auctions. One reason for this is possibly that concert tickets are more emotional laden than car purchases which supports that prizes rises more sharply, not only as an effect of supply and demand but as an effect of time and affect working together. However, on the other side one could argue that while concert tickets have a “face value” price, they are also a scarce resource at the point of auction and will command premium prices through this medium. But if concert tickets are considered being represented as with positive affect indicating the high benefit-low risk judgment, there will be future opportunities affecting buyer’s behaviour by providing additional information close to the ending of the auction in order to prevent “hot hands” buying or even induce it. Cars, on the other hand, are more commonplace and prices are specified in buyer guides. This would account for the BMW M3 case above which shows the market price was reached at a very early stage in the auction and thus bidders were not prepared to top the highest bid as alternatives would be available. A car is also a larger investment in comparison to a concert ticket which renders in aspects of risk being considered as riskier. Furthermore, if cars are considered and judged according to a long term investment strategy it would be consistent with Trope and Liberman’s (2003) high-level construal, where rather few characteristics outline the frame of judgment. This could be considered as low benefit and therefore also high risk resulting in less prominent bidding.

The psychological models presented, give a more nuanced insight into consumer behavior in the e-auction setting. However, it seems to be the case that eBay at least have developed a variety of information tools to assist buyers and sellers and to cool down potentially reckless behavior. Perceived risk is reduced but perhaps so too is perceived benefit in some product categories. EBay are to be commended for their approach to improving information and security in their auctions and indeed it may be the case that impulsive buyers in other consumption environments will bring their recklessness to the auctions. Further research is required to develop hypotheses and test the theories further but it is the case that this research has offered further insights into e-auction purchasing.
References:


