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## **Special Session Summary Drivers and Contextual Moderators of Consumer Value Formation in Participative Pricing Mechanisms**

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## SPECIAL SESSION SUMMARY

# Drivers and Contextual Moderators of Consumer Value Formation in Participative Pricing Mechanisms

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Auctioneers in both brick-and-mortar and Internet institutions recognize the importance of understanding consumer behavior for their trade. Growing consumer interest in on-line auctions such as eBay, and several recent calls for academic research (e.g., Bazerman 2001, Chakravarti et al. 2002, McAfee and McMillan 1996) have stimulated research on consumer behavior in auctions, and more generally, in settings where consumers participate in dynamic price formation processes.

There is a mature literature on the economic theory of auctions (Klemperer 2000) and significant empirical work testing this theory both with laboratory and field data (e.g., Kagel 1995, Laffont 1997). However, this paradigm makes restrictive assumptions regarding consumer values and bidding strategies. The laboratory tests often use stylized procedures and fictitious commodities designed to prioritize pristine theory tests. Although these tests often document failures of the celebrated revenue equivalence theorem (Vickrey 1961), large gaps remain in our understanding of what drives and moderates consumer behavior in auctions involving real products.

The assumptions of independent private values and even the pure common value model appear questionable in the light of the evidence from these studies as well as the work on contextually labile and constructed values (e.g., Ariely et al. 2002). Although Milgrom and Weber (1982) offer the “affiliated values” model to accommodate notions of consumer learning and updating of values as well as bidding strategy, more research is needed on the behavioral underpinnings of affiliation and its impact on consumer learning and strategic behavior in non-posted price contexts such as auctions (Chakravarti et al. 2002).

Consumer behavior in auctions is influenced by a variety of individual bidder differences and contextual information surrounding specific auction mechanisms (whether in traditional or on-line formats). The effects are important not only for their outcome impact, but also because they may be interpreted in the light of explanatory behavioral theory. Recent research has focused on generating a theoretical framework and an empirical understanding of these effects. This session brought together three such papers.

The Chandran and Morwitz paper examined the effect of bidders’ mindsets (whether deliberating a choice or implementing a chosen course) on their actions as they participate in the bidding process. The research demonstrated how participative pricing mechanisms focus the consumers on action and elicit greater commitment to the purchase. This action orientation leads to higher prices in auctions as compared to fixed-price offers. Further, individual differences in perceived control of the outcome moderate this effect.

The Dholakia and Simonson paper examined the impact of a specific contextual factor in online auctions, namely the prices of items listed adjacent to the focal item. This paper showed how these prices serve as dynamic and persistent anchors in the value formation process. Using data from eBay auctions, the authors find that adjacent prices positively influence the final bid price. Moreover, an individual difference variable (bidder experience) lowers susceptibility to such context effects in a manner consistent with prior work on context effects (Lynch et al. 1991).

The Cheema, Chakravarti, and Sinha paper explored the impact of individual-specific factors on how bidders construct values and implement bidding strategies based on the information that unfolds as auctions proceed. Their results show the influence of bidders’ goals and prior price knowledge on bidder behavior. The effects are specifically contrasted across different contexts: ascending and descending auctions with differing deliberation times. They also examine consumers’ post-auction, outcome-contingent regret levels and the motivated reasoning that drives changes in value.

Apart from directly meeting the contemporary calls for behavioral literature on auctions, the papers in this session focused more generally on value formation processes and context effects in consumer behavior. Together these papers provided new behavioral insights into participative pricing processes, and hold a potentially broader appeal to researchers interested in the sociology of competitive behaviors in consumer markets (Smith 1989, 1993).

## SHORT ABSTRACTS

### “Effects of Participative Pricing on Consumers’ Cognitions and Actions: Goal Theoretic Perspective”

Sucharita Chandran, Boston University

Vicki G. Morwitz, New York University

This paper explores consumer cognitions and actions that stem from participation in price determination. Participative Pricing is defined to include mechanisms where consumers participate in price setting in some way (for example via bidding in traditional and reverse auctions). Using a goal theoretic framework, this paper shows that relative to economically equivalent fixed price offers, a participative pricing offer focuses consumers on action (setting a price) rather than evaluation. By virtue of the intermediary price setting process, participative pricing offers evoke an execution orientation that drives higher behavioral commitment (purchase intents) and more positive attitudes. However, this process is moderated by consumers’ perceptions of their ability to control shopping decisions.

### “Dynamic and Persistent Anchors: How Adjacent Listing Prices Influence Focal Listing Success in Online Auctions”

Utpal M. Dholakia, Rice University

Itamar Simonson, Stanford University

This research investigates the *contextual influence* of adjacent listing prices on a focal listing’s success in online auctions. Both the starting price and final price of adjacent listings are found to *positively* influence the focal listing’s success—as defined by bids accrued and its final price—*after controlling for* the listing-related determinants of auction success such as its starting price, duration, and seller’s reputation. Evidence suggests that adjacent listing prices may work as *dynamic and persistent anchors* throughout the auction duration. Further, these context effects are moderated by bidder experience — bidders appear to become *less susceptible* to such influences with increasing experience. The practical implications for sellers are considered and future research opportunities are discussed.

**“Consumer Value Construction and Bidding Behavior in Auctions: Contrasting the Effect of Motivational and Cognitive Influences across Ascending and Descending Auctions”**

Amar Cheema, Washington University in St. Louis  
Dipankar Chakravarti, University of Colorado at Boulder.  
Atanu Sinha, University of Colorado at Boulder

We experimentally study the value construction, bidding behavior, and regret management processes in both ascending and descending auctions. We focus on how bidders' motivations interact with knowledge (prior price information) and value salience to influence bidding behavior. We also examine how consumers mentally manipulate their own values and their assessment of competitors' values to manage post-auction regret, contingent on win/loss outcomes. The interactive effects of motivation, prior knowledge, and value salience are shown to differ across auction types. Further, post-auction regret is driven by goal-incongruent outcomes in descending auctions, but only by win/loss outcomes in ascending auctions. We contrast the effects of manipulated variables across auction types (ascending versus descending) and suggest implications for auction design.

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