

Online Auctions: Pricing Bordeaux Wine on eBay

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The popularity of online auctions is a relatively recent phenomenon. eBay, the leading online auctioneer, is one of the most popular websites and has become synonymous for trading online. Wine is a good well suited for online trading and there is a huge market for it on eBay's websites in France and Germany. Buying and selling Bordeaux reds is especially popular on eBay in Germany where about 2,000 offers of single bottles or bundles are available at any given time. In Germany, many wine enthusiasts and traders have discovered online auctions to trade wine and availability of Bordeaux is even larger than on the French site.

In this paper, I analyze the factors that determine online auction prices for top range Bordeaux sold on the German eBay site. I have collected a data set reporting about 2,200 transactions. I evaluate the impact of eBay specific data such as auction length, weekday of weekend auction ending, buyer experience, buyer interest (number of bids), seller reputation and experience, initial price, private auctions impact (bidder identity remains undisclosed), picture effects or whether relevant quality information is given or not. Many sellers report Robert Parker's point rating when listing their Bordeaux. Thus, I use Parker's rating and other quality signals such as the 1855 classification, brands, regional origin, and wine age as well as the impact of eBay specific data to build a hedonic pricing model. This application is unique because eBay auction data for wine has not been evaluated in the literature.

Very few studies have used data collected directly from internet auction sites to analyze customer bidding behavior. Resnick and Zeckhauser (2001) found that reputation ratings may have a positive price effect. Wilcox (2000) found that more experienced bidders tend to bid more rationally than less experienced bidders. Analyzing eBay data for rare coins, Wood and Kauffman (2001) identified four trends that may explain why auction buyers pay more or less for the same item: weekend, auction length, reputation score, and picture effects. Auctions ending during the weekend yielded higher prices than auctions ending on weekdays (weekend effect). Thus, the weekend effect is a personal characteristic, not a market characteristic and may indicate that people are willing to pay more for the same item when they have more time to consider the purchase. Auctions that last longer attract more bidders and thus higher prices (auction length effect). Seller reputation may also yield a price premium (reputation score effect). However, since eBay reputation scores tend to increase with time and activity it may in fact measure experience rather than reputation. Moreover, items sold online but shown with an actual picture may also sell for a price premium (picture effect).

However, the Bordeaux data suggests that there is no weekend effect. Wines sold during the week (Monday–Friday) command significantly higher prices (up to 20% relative to bottles sold on Sundays). Interestingly, I observe the most offers on Saturday and Sunday evenings. The lack of a weekend effect may be explained through a lack of market depth: not enough buyers are around to bid up prices or during the week offers and bids are more evenly split. However, I do observe a small auction length effect (+2.5% for adding another day). Note that this effect could decline as the online auction market increases in depth: more and more buyers search for deals, thus increasing shorter auctions' ability to attract bidders.

In contrast to other studies, I found no reputation score effect in our wine data set. Neither the positive evaluation rating (seller reputation) nor the number of evaluations (seller experience) showed any significant impact on final auction prices. Moreover, there was also no significant picture effect observable in our data set.

In addition to the effects described above, I looked at four other indicators. The number of bids corrects for market depth and showed a small 1.4% impact on final prices (bidding effect). I also recorded the number of buyer evaluations (experienced buyer effect) and whether the bidder identity remained undisclosed (private auction effect), but both variables showed no significance. Finally, I recorded whether or not the seller disclosed Parker points (information disclosure effect). According to the analysis, disclosing credible quality information in the offer carries a premium of more than 10%. Although sellers might be more inclined to record only higher ratings, I did not observe

that this was more likely.

To render the analysis of eBay specific variables valid, I need to correct the model for quality attributes used in more traditional hedonic analyses. As to be expected Parker's point rating showed the highest significance with a price elasticity of about 4.2. In addition, other quality signals such as the 1855 classification, brands (e.g. Chateau Latour), regional origin, and wine age are all significant. In line with traditional demand analysis, the number of bottles sold in an individual auction exhibited a negative impact on prices – selling another bottle decreased the price per bottle by about 1.1%.

This paper is relevant as it sheds some light on potential factors determining online auction prices for wine as well as on the economics of online auction prices in general. I report a significant bidding and quality information disclosure effect, but no private auction and experienced buyer effects. In contrast to other studies, I find no weekend effect, no reputation score effect, and no picture effect. These results should provide the potential for generating lively discussion both during the conference and during degustation.

References

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