

How retailers can make more money in online auctions

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To get more participants in online auctions and drive up the winning bid prices, two things matter: how long an auction is active and the day of the week it closes, finds researchers from the University Maryland,

Stanford University, University of Pennsylvania and Indiana University.

Forthcoming as "Managing Market Thickness in Online B2B Markets" in *Management Science*, the study focuses on online business-to-business (B2B) [auction](#) platforms used by retailers to sell their unsold or returned inventory to discount stores and wholesale liquidators.

Co-authors Wedad Elmaghraby (Maryland), Kostas Bimpikis (Stanford), Ken Moon (Penn) and Wenchang Zhang (Indiana) looked at how shortening or lengthening auctions impacted the number of buyers bidding in [online auctions](#). They found that adjusting the listing policy (supply)—specifically, the days on which auctions close/end and how long they remain open—influences whether potential buyers place bids or wait and can increase sellers' revenues by several percentage points.

"On one hand, increasing supply by having more auctions end on a given day can profitably incentivize more participation in auctions, says Elmaghraby, professor of operations management and [management science](#) in Maryland's Robert H. Smith School of Business. "But auctions ending the same day cannibalize each other and actually drive down prices that day."

The researchers used data from a leading [online platform](#) that manages auctions to liquidate excess or returned inventory for more than 30 big-box retailers, including Costco, Walmart, Sears and Home Depot. The auctions work like an eBay auction, lasting from one to four days, with a winner-take-all bundle of similar products—electronics, household appliances, furniture or apparel—up for grabs. For the study, the researchers honed in on iPhone auctions.

They culled through auction data to design the optimal listing policy. They found that concentrating auctions' ending times to certain days of the week leads to a 7.3 percent increase in a platform's revenues.

The researchers also say the auction platform can boost revenues if it implements a recommendation system to selectively inform sellers and bidders of the number of auctions currently open on the platform. They say the right system would increase the level of competition among bidders on days that the incoming supply is higher than average, once again helping to profitably match supply with demand.

More information: Kostas Bimpikis et al. Managing Market Thickness in Online B2B Markets, *SSRN Electronic Journal* (2019). [DOI: 10.2139/ssrn.3442379](https://doi.org/10.2139/ssrn.3442379)

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