

Tracking Consumer Savings on eBay

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Is eBay turning away from auctions at precisely the wrong moment?

The e-commerce leader, with its swooning stock price and recent management shakeup, [said last week](#) that it is shifting its focus away from its historic auction model to the sale of fixed price goods. But

as the economy craters, consumers will certainly go looking for deep discounts and good values.

Can they find them on eBay? The amount consumers can save on eBay is difficult to quantify. One reason: winners of eBay auctions typically pay not the highest amount they bid but the second highest amount, plus the bidding increment of that auction. In other words, there is a gap between what they pay and what they are willing to pay – a “consumer surplus” whose size eBay has never revealed, since the company does not share data on the highest bids.

Now researchers from the Smith School of Business at the University of Maryland, and the Indian School of Business in Hyderabad, have **quantified that surplus** – the key to eBay’s value proposition, particularly during rough economic times. Writing in an coming issue of Information Systems Research, the researchers report that eBay buyers saved more than \$7 billion in 2003 and \$8.4 billion in 2004. Extrapolating from their data, they project that consumers saved \$19 billion on eBay last year.

The researchers quantified the surplus by using a sniping agent called Cniper to track 4,500 eBay auctions in 2003 and 2004. (Sniping software lets people automatically bid on auctions in the final moments.) By using the sniper software, the researchers could track the highest bids and measure the difference with the winning bid – an average of \$4, or 30 percent savings on the average \$14 eBay auction.

“Everyone is talking about the recession. This is where people are conscious of the money they are spending,” Galit Shmueli, an assistant professor of management science and statistics at Smith. “EBay should try to extract more of this consumer surplus.”

Wolfgang Jank, also an associate professor at Smith, says eBay could use these surplus findings to reignite its auctions business, perhaps by being more transparent on what consumers are saving as they shop on the site. “I think there is a lot of opportunity to reinvent and recreate new excitement for the auctions,” he said.

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