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Penny Auction – A Viable E-Commerce Business Model?

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ABSTRACT:

The development of information technology has led to the booming of new E-Commerce business models in recent years. Online auctions, in particular, have turned out to be "one of the greatest web based services" (Ariely and Simonson, 2003). Penny auction, an innovative implementation of the economic game theory and Shubik's famous "dollar auction" model, was first introduced by Swoopo.com in 2005 and has since been adopted by a growing number of mainstream E-Commerce companies, such as Quibids.com and BigDeal.com. In these online "pay-per-bid" penny auctions, the participating bidders pay a fee for each bid they place for an auction item and the winner's final purchase cost is usually a small fraction of the item's intrinsic value. The value proposition of an entertaining strategy game experience which provides customers an opportunity to save 80%-90% off on brand new retail consumer products has been very attractive. However, the New York Times has called the bidding game "devilish", in which bidders essentially pay a fee to buy the ticket to a cleverly disguised lottery. Does penny auction have a sustainable business model while there is only one winner in each auction, while the majority of participants lose money? Swoopo.com, the founder of this innovative type of online auction, quietly filed bankruptcy in March 2011, which has fueled a new round of a debate on the viability of the penny auction E-Commerce business model. This paper will discuss the controversial flaws in penny auction business model, explore its revenue models based on a large dataset collected on Swoopo.com and Quibids.com using analytic tools and propose bidding strategies that improve a bidder's chance of winning on penny auction sites.

KEY WORDS

Penny Auction, E-Commerce Business Model, Revenue Model, Game Theory, Bidding Strategies, Swoopo.com, Quibids.com