Linking the Popularity of Online Trading with Consumers’ Concerns for Reputation and Identity Theft

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ABSTRACT

Although online trading has its benefits, such as convenience and the ability to compare prices online, there are still many concerns about the integrity of the buyer, the seller and/or the online auction service provider (OASP). This paper investigates these relationships via multivariate statistical analysis of a stratified sample of working professionals, resulting in 198 useable questionnaires from an initial sampling frame of over 550 professional personnel from five relatively large Pittsburgh, Pennsylvania, firms. The author found that buyers that felt feedback systems were viable were more willing to engage in online trading activities and pay a premium price for merchandise being sold by a seller with a better reputation, regardless of gender. Customers were especially concerned with the total price, including shipping cost, regardless of gender. In terms of the convenience of payment method, electronic forms were preferred in transacting online trading activities, regardless of age and gender.

Keywords: Business Strategy, Identity Theft, Online Auction Service Providers, Reputation, Service Operations

INTRODUCTION

Growth of the Online Trading Industry

Online trading has become an increasingly popular source of income used by consumers as well as businesses. However, many factors need to be considered in order to determine the success of the auction including security and fraud safeguards, convenience, selling and buying points, reputation and feedback, and competitive forces surrounding pricing structures. Since 1995, online auctions have been one of the major success stories of the Internet with over 1,600 significant web-based auction websites and still growing (Armes, 2006). The largest online auction website for business-to-consumers (B2C) is undoubtedly eBay, which was formed in 1995 by Pierre Omidyar. It has been on a major force in the expanding online auction service provider (OASP) industry since the beginning on the Internet, initially not concerned with banner advertising in its

DOI: 10.4018/jbdcn.2011010101
formative years. Coincidentally, the first major business-to-business (B2B) online auction was conducted by FreeMarkets Inc. in 1995, with the company experiencing a slow start for the first two years, but in 1998 they grew at a much higher rate raising US$172.8 million in capital (Emiliani, 2000). FreeMarkets Inc. manufactured industrial parts, raw materials, and commodities. The primarily reasons for their growth in capital was due, in part, to their contracts with General Motors and United Technologies Corp. Ariba, Inc., a company headquartered Sunnyvale, CA, which made its name by providing software and network services to assist corporations in managing their capital, bought TradingDynamics, Inc. in 1999. This acquisition helped make Ariba, Inc. one of the fastest rising companies in the early dotcom era. Ariba acquired a privately-held procurement Business Process Outsourcing provider called Alliente, Inc. and Freemarkets, Inc., which is now the home of the Ariba Pittsburgh, PA office. Ariba has continued to be successful today thanks largely to their partnerships with 40 of the top 100 companies, as well as many other partnerships with smaller companies.

As B2C transactions are the traditional way most consumers view online auctions are utilized and transacted, the growth of e-tailing tied to B2C has been extensive and the B2C auction website, eBay, has become a generic term for e-tailing (Smith, 2009a, 2009b, 2010), as eBay is already a household name for online auctions. Whether management takes advantage of B2B or B2B online auctions, such auctions are rapidly becoming an essential tool that organizations are using to reduce costs and improve margins with a wider supply base. There are different approaches to e-procurement marketplaces, similar to the make or buy options for materials and finished products; namely, one is to establish in-house auction teams and the other is seeking external assistance from specialist auction consultants, namely OASP (Armes, 2006; Hu, Wang, Fetch, & Bidanda, 2008; Jain, Benyoucef, & Deshmukh, 2008; Scherrer-Rathje, Boyle, & Deflorin, 2009).

Typically the B2B online auction process begins with the formation of a cross-functional team, as this team’s responsibility is to analyze a commodity and gather data from existing sources to establish the current condition of the commodity (Smith, 2006). Such team members usually identify suppliers that are capable of performing the work and eventually create a bid list. The bid list typically consists of suppliers that currently do business with the buyer as well as the new suppliers and usually contains 50 to 60 suppliers (Emiliani, 2000). After the bid list is created, a comprehensive request for quote is sent to the suppliers, which usually contains important information concerning the commodity as well as the bid time and date as related information. Suppliers are usually given 15 to 45 days to evaluate the request for quote to develop pricing. By this time, the bid list is down to 25 to 30 interested suppliers, which is dependent on the type of product and initial capital outlays to acquire it. After all interested suppliers have communicated with the cross-functional team about all parts of the commodity, the auction is ready to begin as interested suppliers are instructed to log into the auction on a certain day and time and begin to bid on each commodity. The number of suppliers who actually participates in the auction may be quite small, typically between 10 and 20. In online auctions, the buyer is not obligated to accept a bid, as most may have a reserve price or there are certain exceptions in place, which may complicate the process as the highest bidder may not always win.

In B2B auctions, there is a buyer and a seller, where the seller will post an item and initiate a length of time interested parties can bid on the item. The buyer will then bid on the item during the allotted time limit. When the auction closes, the person with the highest bid usually wins the item. The buyer and the seller then arrange payment options and shipping details; online auctions then provide many attractive benefits for both sellers and buyers. The buyer experiences a disciplined process, while the seller gains a fair opportunity to win the materials and learning.
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