Chapter VII

The Impact of eBay Ratings and Item Description on Auction Prices: A Comparison of Designer Watches and DVDs

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Abstract

Buyers on eBay commonly rely on seller feedback ratings to determine bidding strategies. Various studies have examined the impact of eBay’s reputation system on auction outcomes. This study builds on prior research by examining the relationship between seller ratings on auction prices for two distinct product types, DVDs and designer watches and by benchmarking the bid prices against retail prices. The results
show that eBay ratings explain a greater degree of price variation in Designer Watches than in DVDs. The study also suggests that high quality product listings with such features as digital images, formatted pages, and product details may result in higher bid prices.

Introduction

E-auctions have been among the greatest phenomena in the Internet age. eBay, the leading e-auction marketplace, has become one of the most recognizable online brands. On a given day, approximately 12 million items are listed on eBay. In 2002, nearly $15 billion in goods and services were transacted. eBay’s tens of millions of registered users include a diverse range of buyers and sellers. While searching for a particular product, one could find items offered by small business owners who use eBay on a daily basis to market their goods or by an individual selling on a one-time basis.

Despite the popularity of e-auctions, buying and selling items entails a certain degree of risk. Auctions have been the leading source of Internet fraud and consumer complaints. The National Consumer League reports that online auctions accounted for 90% of Internet fraud resulting in $14.6 million in losses in 2002 (National Consumer League, 2002). To promote accountability, eBay has developed a rating system that allows buyers and sellers to view feedback from previous transactions. Although the rating system is voluntary, the culture of eBay promotes the rating system resulting in over 50% of transactions being rated.

Previous research has examined the impact that eBay’s rating system (or reputation system) has on consumer behavior (e.g., whether users with higher ratings receive higher bids on similar products than do those with lower ratings). However, eBay’s rating system is only one measure of risk. Risk may also depend on the type of product, the experience level of buyers or sellers, whether the item is new or used, and other factors. This study extends previous e-auction research by empirically studying the impact of these factors upon an auction’s winning bid prices.

The remainder of this chapter is organized as follows: Section II contains a three-part review of literature. We begin by briefly reviewing eBay and its rating system. Next we review prior research on the impact of eBay’s reputation system followed by a brief examination of research related to different product types in e-business. In Section III, we describe the methodology for the study, define the variables of interest, and outline research questions for the study. Section IV includes the study’s statistical analyses and findings. Finally, in Section V, we provide conclusions and implications for future research.
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