

# COMPARING THE IMPACT OF SELLER REPUTATION BETWEEN EBAY AND TAOBAO

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## ABSTRACT

In the last decade, the explosive growth of Internet-based commerce has cultivated a large number of online shopping websites. Unlike the traditional offline market, the seller and the buyer usually conduct transactions face to face; an online buyer can execute a transaction without actually meet with the seller. These simple yet convenient procedures, on the other hand, may lead to uncertain outcomes hence increase consumer's distrust. To reduce or eliminate such distrust, seller reputation systems, in the forms of reputation score, feedback rating, positive feedback rate, et al., have been developed in many online shopping marketplaces. Subsequently, many research studies have attempted to examine the impact of seller reputation on sales performance both theoretically and empirically.

Seller reputation has been recognized as an essential determiner in C2C online marketplace; however its influence on sales performance is still undetermined. As the global leader in the C2C online auction market, eBay has its well-developed seller reputation system. With the ever increasing popularity of the electronic market in China, a website named "Taobao" is becoming another prominent online C2C platform and has recently been ranked as the number one online C2C auction marketplace in China. A survey in 2010 showed that Taobao has 370 million registered participants and 800 million different products for sale. In addition, Taobao has 60 million visitors per day and 48 thousand products sold per minute. The blossom of online market in China has stimulated wide interest from marketers; however there is still limited research that attempts to understand the unique behavior of the C2C online market in China.

The majority of the extant studies in understanding the impact of seller reputation on sales performance are based on the transaction records from www.eBay.com. Contradictory results regarding the impact of seller reputation on sales performance have been reported. For instance, in the study by Ba and Pavlou [2002], the seller reputation score is shown to have positive influence on price (price premium). Yet, another study by Resnick and Zeckhauser [2002] shows no significant correlation between the two can be found, and suggests that high reputation sellers cannot be guaranteed for a price premium. Moreover, the limited studies of the same topic using the online C2C market data in China also shows inconsistent result. A study by Ye et al. [2009] using data collected from Taobao, shows there is price premium for sellers with high reputation score. On the other hand, more studies suggest a strong correlation between seller reputation and sales volume, but not sales price [Li et al. 2007].

Although some researchers attempt to attribute the difference between the U.S. and China online markets to the dissimilarity in the culture backgrounds [Hou 2007], the issue still remains unclear to a large extent. In this study, we first examine the difference in the impact of seller reputation on sales performance between the U.S. and China online markets. We then investigate other factors that might have impact on the different behaviors of the two online markets. The factors are derived from a study by Hou & Blodgett [2010] that classifies online market based on quality uncertainty and market structure (thick vs. thin).

In order to examine the impact of seller reputation on different online C2C markets, we collect Buy-It-Now data from [www.ebay.com](http://www.ebay.com) and [www.taobao.com](http://www.taobao.com). Statistical analysis shows that seller's reputation is positively correlated with sales price (price premium) on eBay, but not on Taobao. Conversely, the strong correlation between seller reputation and sales volume found on Taobao does not occur on eBay. In other word, seller reputation has positive impact on the sales price on eBay but on the sales volume on Taobao. To explain this interesting phenomenon, we conduct further analyses and find out that it is the market structure, especially the number of sellers, moderates the relationship between seller reputation and sales performance.

Market structure can be distinguished by the number and size of firms, the extent of product differentiation, the entry conditions, and the degree of vertical integration [Standifird 2001]. A study by Venkatesan *et al.* [2006] attempted to understand the impact of market structure and retailer characteristics on sales price. Specifically, they used market competition and price level of a product as indicators of market structure. Hou & Blodgett [2010] divide online auction marketplaces into four quadrants based on market structure (thick vs. thin) and quality uncertainty. In this study, we focus on the size of producers, which is the number of sellers and collect data of products with same quality uncertainty. The preliminary findings show that the increase in the number of sellers will weaken the relationship between seller reputation and sales price (i.e. "price premium"), but enhance the relationship between seller reputation and sales volume (i.e. "sales premium")

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