Online Auctions and the Importance of Reputation Type

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INTRODUCTION

E-commerce has emerged as one of the hottest topics in today’s business environment. Through much of the late 1990s, merely identifying a company as a dot.com company seemed a guaranteed formula for attracting the attention of investors. The year 2000 proved difficult for many dot.com firms as approximately 200 dot.com firms failed, mostly in the latter part of the year (Larson 2001). Still, the enthusiasm for online purchasing continues. Approximately 36 million US consumers purchased items online during the 2000 holiday season, an increase of 54% over the previous year (Jupiter Research 2001). What firms are most likely to survive the dot.com shakeout? Clearly, firms that have a strong positive reputation are more likely to survive than those that do not.

Many would argue that established retailers (e.g., Walmart) have a distinct advantage in the area of building and maintaining a strong positive reputation. The combination of existing brand identity and a network of storefronts makes the ‘click and mortar’ store far more visible than even the best known fully Web-based or ‘pure play’ businesses (e.g., Amazon). This increased visibility gives the ‘click and mortar’ store a strategic advantage over the ‘pure play’ firm in their ability to develop a positive reputation with consumers.

Without question, the entry of traditional retailers drastically redefines the nature of e-commerce competition in general. Still, it would be naive to suggest that all ‘pure play’ firms are doomed to failure. What, then, determines the ability of the ‘pure play’ firm to attract and retain customers? The basic premise of this analysis is that ‘pure play’ firms will succeed to the extent that they are able to develop a specific ‘type’ of reputation. Moreover, we find strong evidence for the importance of reputation type when looking specifically at the three auction venues of CNET, eBay and Amazon.

The importance of reputation in general is well documented (Dollinger et al. 1997; Fombrun 1996; Fombrun and Shanley 1990; Rao 1994; Vergin and Qoronfleh 1998). Reputation is particularly important when engaging in e-commerce given the unique nature of e-commerce as compared to more traditional means of exchange (Standifird 2001). With ‘brick and mortar’ exchange, for example, the agreement on price, the payment for goods and services and, most importantly, the delivery of goods and services occur simultaneously. With e-commerce, payment and delivery rarely occur simultaneously. Notable exceptions exist where payment and delivery can occur nearly simultaneously for online purchases (e.g., when purchasing MP3 files). More commonly, the buyer is required to

A b s t r a c t

A growing number of firms appear to operate under the assumption that the firm can develop a reputation as an e-commerce company and then engage successfully in any type of e-commerce. Yet, there is sufficient evidence to suggest that firms develop a specific ‘type’ of reputation. This project looks at the importance of reputation type when engaging in e-commerce by comparing the results of individual auctions conducted through the three online auction venues of CNET, eBay and Amazon. If reputation type matters, then we would expect a higher final closing price for computer related items sold through an auction site that has a specific reputation for attracting individuals interested in computer related activities (CNET) or has a specific reputation as an auction site in general (eBay). We would not expect a company like Amazon, best known for selling books, to perform particularly well when attempting to sell computer related items via auction. The results of this analysis indicate a much higher final bid price when selling computer related items (Zip Disks) through CNET or eBay auctions as compared to Amazon auctions. Thus, there appears to be some support for the suggestion that reputation type matters when engaging in e-commerce.

A u t h o r

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pay in advance for a product or service to be delivered sometime into the future, often with little or no ability to examine the product or service in advance. The separation of payment and delivery increases the perceived risk for potential buyers (Kollock 1999). To compensate for this increased risk, the buyer must have some assurance that the seller will deliver the product or service as contracted. Reputation specifically provides an increased level of assurance that the seller will follow through as contracted thereby increasing the ability of a seller with a positive reputation to command a premium price for her or his product or service (Kollock 1999; Standifird 2001).

The situation confronting e-commerce retailers is not unlike the situation confronting mail order catalogue retailers. Both are confronted with the complication of separation of payment and delivery. Not surprisingly, Hawes and Lumpkin (1986) find that customers perceive the risk of catalogue shopping as significantly higher than shopping through ‘brick and mortar’ retail shops. Correspondingly, reputation emerges as highly significant and influential in determining a customer’s willingness to purchase from a particular mail order catalogue firm (Eastlick and Feinberg 1999; Hawes and Lumpkin 1986).

Many firms engaging in e-commerce are aware of the importance of reputation and go to great pains to assure a certain level of customer satisfaction. Amazon.com, for example, offers an unconditional refund for any book purchased based on Amazon generated recommendations. Victoriasecret.com periodical provides prepaid packaging for the return of any unwanted item on orders of 100 USD or more. BN.com allows online consumers to return items to any of its ‘brick and mortar’ stores for in store credit while many online retailers provide tracking for items purchased through their websites.

Despite the increased recognition of the importance of reputation when engaging in e-commerce, few firms appear to recognize the importance of reputation type. In fact, a growing number of firms engaging in e-commerce appear to operate under the assumption that the firm can develop a reputation as an e-commerce company and then engage in any type of e-commerce successfully. Thus, firms such as Amazon attempt to leverage their online brand identities by engaging in a variety of largely unrelated online activities. Yet, there is sufficient evidence to suggest that firms develop a specific reputation type (Aaker and Keller 1990; Dollinger et al. 1997; Eastlick and Feinberg 1999; Nichols and Fournier 1999; Standifird 2000; van Riel et al. 2001).

Reputation type refers to the specific reputation that a firm develops as a result of well-known and specific behaviours. For example, Wal-Mart has a specific reputation for offering low prices while Starbucks has a specific reputation for the marketing and selling of coffee related products. Support for the importance of reputation type can be found in the work of Aaker and Keller (1990). They find that the ability of a firm to extend the reputation of an established brand is limited by the perceived congruency between products being offered. Van Riel et al. (2001) find a similar effect when investigating the ability of service firms to leverage brand identity. In general, the ability of a firm to successfully compete in a multitude of e-commerce activities depends on the ability of the firm to compete in areas that are consistent with the specific type of reputation established by the firm (Standifird, 2000). This study looks at the importance of reputation type when engaging in e-commerce by looking specifically at the importance of reputation type when attempting to compete in the area of online auctions.

ONLINE AUCTIONS AND REPUTATION TYPE

Online auctions represent an important component of e-commerce. eBay, the largest of the online auctions, consistently ranks as one of the most visited sites on the Web. Yet, the auction format is quite unique in the realm of e-commerce. The primary role of the auction site is to serve as intermediary between buyers and sellers (Klien 1997; Turban 1997). In some cases, the host of the auction site (the auctioneer) will also serve the role of seller (Lucking-Keiley 2000). In most cases, the auctioneer merely provides the institutional basis of the exchange (Klien 1997). The auctioneer provides the service of establishing the ‘electronic trading system’ (Reck 1997: 18). The reputation of the site depends on the ability of the site to successfully match buyers and sellers in the marketplace. The design criteria for auction sites are fairly straight forward (Wrigley 1997). The challenge for the auction site is to attract a sufficient number of buyers and sellers simultaneously to the electronically established market place. To accomplish this task, the auction site must have a reputation either for attracting a large number of buyers and sellers in general or for attracting buyers and sellers with specific interests (Lucking-Keiley 2000). Lacking either, the auctioneer will have a difficult time creating the level of participation needed for the auction site to succeed.

The purpose of this paper is to look at the importance of reputation type when engaging in e-commerce by comparing the success of individual auctions conducted through the three online auction venues of CNET, eBay and Amazon. These three auction sites were chosen for this analysis because each provides a venue for selling personal items via auctions (for a fee). Yet, each has a specific type of reputation that differs significantly from the others.

According to official company announcements (CNET 1995), CNET online initially launched in June of 1995 as a site ‘devoted entirely to computing, multimedia and online services.’ Today, CNET online remains fairly true to its original identity, ranking as one of the largest online sellers of computer related items (Thompson 1999). Even after the acquisition of ZDnet.com and mySimon.com, CNET online maintains a ‘dominant position in the comparison shopping space for computers and consumer electronics’ (CNET 2000). eBay too has remained true to its original identity. Established in September 1995 as an online
auction site, eBay’s expansions include a site dedicated to the selling of automotive products, a site targeting services to business and a site devoted exclusively to premium art and antiques. Each of the sites developed focuses exclusively on selling items via the online auction venue thus maintaining eBay’s status as the world’s largest online auction site. Amazon (established in July 1995) began as the world’s largest online bookseller. Today, a variety of items are available through the Amazon website ranging from books to bathroom fixtures. Amazon is one of the largest and most recognized e-commerce sites on the Web (Lawrence 2000; Thompson 1999). Despite the overall recognition of the site, Amazon is still best known as an online bookstore (Wenske 2000). Thus, CNET, eBay and Amazon each has a specific reputation type distinct from the other. CNET is particularly well known for attracting the attention of individuals interested in computer related activities. eBay has established itself as the world’s largest online auction capable of attracting a large number of buyers and sellers. Amazon is consistently recognized as the dominant seller of books online.

EXPERIMENTAL DESIGN AND ANALYSIS

To investigate the importance of reputation type, individual Iomega Zip Disks were auctioned through each of the three websites of CNET, eBay and Amazon. Iomega Zip Disks were specifically chosen for this analysis since they represent a commonly used item yet are likely to be of greater interest to individuals interested in computer related activities. If reputation type matters, we would expect a higher final bid price for Iomega Zip Disks sold through an auction site that has a specific reputation for attracting individuals interested in computer related activities (CNET) or through an auction known for attracting a large number of buyers and sellers in general (eBay). We would not expect a company like Amazon, which is best known for selling books, to perform particularly well when attempting to sell Iomega Zip Disks through an auction venue despite the fact that Amazon is a better known Website in general and boasts the largest customer base of the three.

A variety of issues can affect the final bid price of an auction. Standifird (2001) finds a significant effect associated with seller reputation and the specific timing of the auction. Other factors that might influence bid price include the description of the item being sold, the opening bid price, the number the days the auction is open and whether or not the auction has a reserve price. Fortunately, each of these variables was controlled for in the experimental design. To conduct the auctions, the new user identification MOA321 was created and used throughout. In each case, the seller (MOA321) had no previously established reputation (good or bad). An opening bid of 1.00 USD was used for each of the auctions conducted. The shipping costs of 1.50 USD and descriptions used in each of the auctions were identical. The timing of the auctions varied within an auction site but was identical across the three auction sites. The only variation introduced across auction sites was the site where the Iomega Zip Disk was listed.

A total of 21 Iomega Zip Disks per site were auctioned through CNET, eBay and Amazon respectively (three per day on each auction site for a period of one week) for a final sample size of 63. An analysis of variance (ANOVA) was then conducted to determine whether or not there was a statistically significant difference in the final bid price across the three auctions. Results suggest minimal distinction between the final bid price of CNET and eBay auctions with CNET and eBay each receiving a final average bid price of 5.25 USD and 7.00 USD respectively. The overall analysis of variance proves statistically significant when looking at each of the three auctions ($F = 24.63$, $p = .00$). However, the final average bid price difference of 1.75 USD between CNET and eBay auctions does not prove statistically significant. The results suggest a much higher final average bid price when selling through CNET or eBay auctions as compared to Amazon auctions where the final average bid price was 1.32 USD. Here, the differences are significant. Whether using a modified LSD (Bonferroni) or a Tukey-HSD test for significance at the $p = .05$ level, the analysis of variance suggests a statistically significant difference between Amazon final bid prices and the final bid prices of CNET and eBay auctions respectively.

THE IMPORTANCE OF REPUTATION TYPE

The fact that eBay outperforms Amazon as an auction venue is not particularly noteworthy given eBay’s status as the world’s largest online auction site. The fact that CNET outperforms Amazon as an auction venue when selling Iomega Zip Disks is far more noteworthy since neither CNET nor Amazon is particularly well known as an online auction venue. Yet, each has a distinctive reputation type. Amazon, while diverse in its offerings, is still best known as a seller of books (Wenske 2000). Conversely, CNET ranks as one of the largest online sellers of computer related items (Thompson 1999). If reputation type matters, we would expect CNET to outperform Amazon when attempting to sell a computer related item via auction given CNET’s reputation as a focal point for individuals interested in computer related items. The finding that CNET does, in fact, outperform Amazon when attempting to sell a computer related item via auction provides strong evidence for the suggestion that reputation type matters when engaging in e-commerce.

There are several limitations associated with this study that should be noted. In this particular analysis, we focused on the auctioning of one particular product, Iomega Zip Disks. It remains to be seen whether or not the results would hold for other products. One could predict, for example, that Amazon would outperform CNET in the
auctioning of books given Amazon’s reputation as an online seller of books. Resource constraints prohibited the auctioning of books to be included in this particular analysis. Still, the inclusion of books in a future analysis could prove insightful and provides a potential avenue for future research. This analysis focused on three of the better-known auction venues. These particular auction venues were chosen because of the specific type of reputation associated with each. It remains to be seen whether or not the results observed here apply across the vast array of online auctions in operation. For example, it remains to be seen whether or not specialty auction sites such as ameri-coin.com (an auction site dedicated exclusively to the auctioning of coins) can compete on par with auction giants such as eBay. It also remains to be seen whether or not broadly defined auction sites such as Yahoo Auctions can compete lacking either industry leadership or the ability to establish a clearly defined reputation type. More research including a broader variety of online auctions seems warranted.

Despite the limitations of the study, the results of this analysis provide fairly strong support for the notion that reputation type matters (Standifird 2000), especially in the area of e-commerce. Correspondingly, much additional research should focus on understanding the nature of reputation types in general. To what extent does a firm’s history determine the type of reputation a firm is able to develop? To what extent is a firm capable of changing its reputation type? To what extent is reputation type transferable from one area to another? The ability to answer these and related questions would contribute significantly to the understanding of reputation types.

The results of this analysis suggest several practical implications worth noting. Organizations such as Amazon spend enormous sums of money on advertising in order to build generic online reputations. Often, such expenditures are made with the explicit intent of leveraging a firm’s online reputation across a variety of online merchandise offerings (Zaret 2000). Yet, the results of this analysis clearly point to the importance of establishing a specific type of reputation. The ability of a firm to leverage its reputation type across multiple product lines is question-able at best. Thus, any strategy built on the foundation of becoming a one-stop e-commerce site is likely to result in sub-optimal performance. Instead, ‘pure play’ Internet firms would be wise to develop a specific type of reputation thereby increasing their ability to compete in the increasingly unforgiving e-commerce environment.

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References


