

Exploring the WOW in online-auction feedback

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Abstract

The reputation system, or Feedback Forum as it is called on eBay, is considered the most critical element for success in online auctions. Previous studies have examined only “aggregate” reputation measures. This research extends the investigation into “detailed” reputation-system information elements by classifying online-auction reputation information as a *rating-and-review* (RR) type of “word-of-web” (WOW). We discovered, via a study of rating-and-review WOW from 86 websites, a characteristic that is unique to online auctions—“*bidirectionality*”—and, in a study of online-auction utilization, found that indeed several “detailed” reputation-system elements, such as feedback reviews, are processed during consumer/bidder decision making.

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1. Introduction

eBay, the leading online retailer, has captured the fascination of both American consumers and corporations (Adler, 2002). With 104.8 million members, it has garnered approximately 52% of all gross online retail sales, US\$8.0 billion out of US\$15.5 billion, during the first quarter of 2004 (eBay, 2004; US Census Bureau, 2004). And the future of Internet auctions looks bright as eBay financial results for Q1 2004 compared to Q1 2003 reported increases in net revenues and GAAP net income of 59% and 92%, respectively; in addition, sales and marketing expenses as a percentage of net revenues decreased to 25% from 26% during that same time period (eBay, 2004).

Prominent marketers have proclaimed the importance of studying online auctions; and practitioners have pointed to eBay in particular as the torch bearer for success in e-commerce. For example, Chakravarti et al. (2002) strongly

recommend that marketers take a stronger interest in online auctions by emphasizing “despite the growing interest in traditional and Internet auctions, the marketing literature is sparse;” and, George Day has described eBay “as perhaps the most successful of all the breakthrough applications on the Internet” (CNET, 2002).

While there are many reasons cited for the success of online auctions, the reputation system, or Feedback Forum as it is called on eBay, has been considered the most critical element (Grant, 2002; Hof, 2001). eBay’s Feedback Forum is where buyers and sellers can rate and read about each others’ past transaction experiences. Each eBay member has a Feedback Profile which tracks and maintains several pieces of reputation-related information about the member, including individual-auction feedback reviews, which consist of a satisfaction/dissatisfaction rating and comments by others who have participated in an online-auction exchange with this member. It also has an overall feedback rating which is, in essence, an aggregate reputation score (for an example, see Fig. 1).

Most online-auction studies have focused on eBay or used eBay-generated data; and, those that have investigated the impact of seller-reputation on consumer/bidder behavior and auction results have considered only aggregate or

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Feedback Profile page excerpt of eBay member IBM

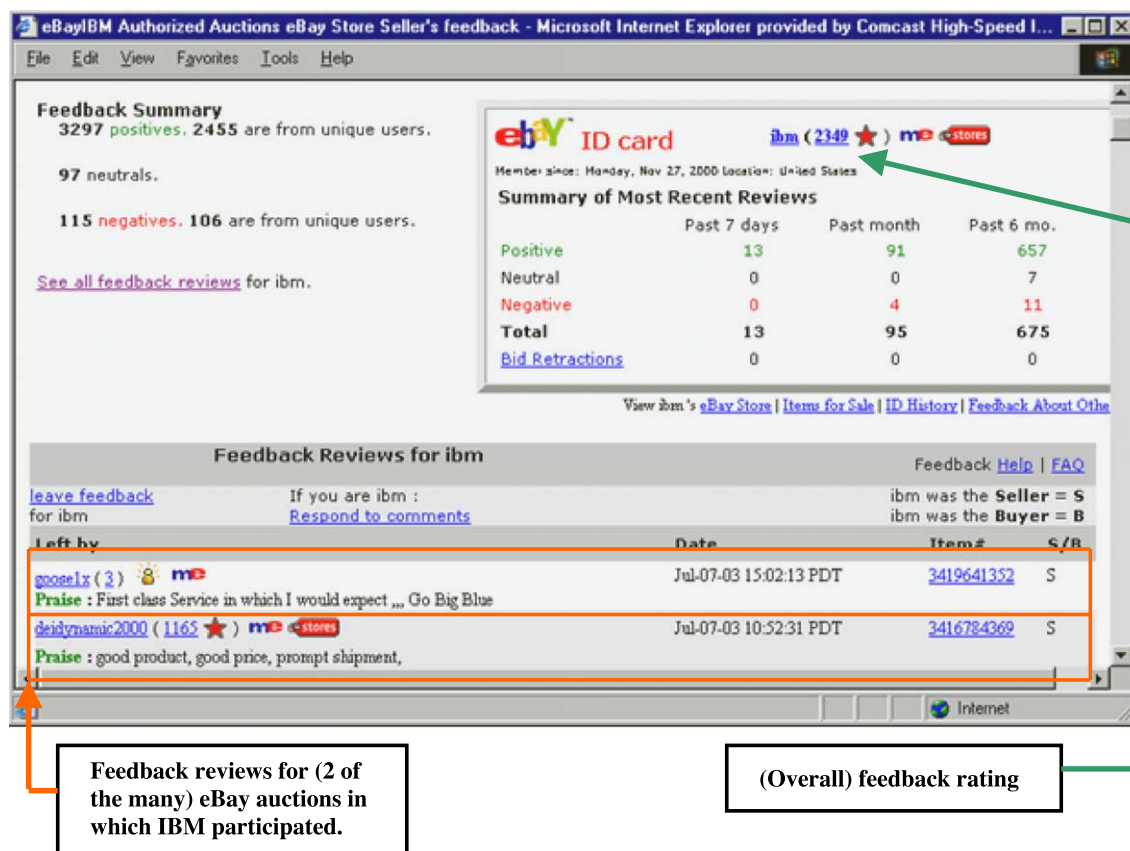


Fig. 1. Feedback Profile page excerpt of eBay member IBM.

summary measures of reputation, such as the feedback rating. Indeed, the overall reputation (score) is an important factor in decision making and bidding behavior (e.g., Resnick et al., 2000). However, virtually no research has “gone beneath the surface” to investigate whether consumers utilize and are influenced by the many “detailed” Feedback Profile information elements, such as the individual-auction feedback reviews. We believe that such deeper exploration would enhance our understanding of eBay’s key-success-factor in specific and online-auction reputation systems in general, and, consequently, would reveal insights that could be applied in other online, and perhaps offline, retailing applications.

We addressed this void in the auction and marketing literature in three steps. First, “word-of-web” (WOW) was defined and online-auction reputation information was classified as a *rating-and-review* (RR) type of word-of-web. Next, a descriptive study of rating-and-review word-of-web from 86 different websites was conducted in order to better understand the nature of online-auction reputation systems. This revealed a characteristic that is unique to online auctions, “*bidirectionality*.” Finally, an exploratory study of consumer utilization of online auctions was conducted, showing that consumers/bidders do indeed

process, and are influenced by, several online-auction reputation system “detailed” elements when evaluating sellers and making bidding decisions.

We begin the paper with a brief discussion of the retail online-auction market. Next, we review relevant literature, including elaboration on the concept of word-of-web communication. Then, we describe and discuss the results of study one and study two. Finally, we close with a discussion about opportunities for future research.

2. “Retail” online auctions overview

The online-auction market is served by several prominent players, including, most notably, Amazon, eBay and Yahoo!. However, eBay is the most dominant player, with more than 80% market share. Amazon Auctions and Yahoo! Auctions have about 2% share each. Given this, it is not surprising that eBay is the most referenced online-auction player and to many is synonymous with the term online auction.

Many leading manufacturers, retailers, service providers and charitable organizations have engaged online auctions: for example, IBM, Dell, Apple, Kodak, Motorola, Boeing,

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