

## Chapter 5.2

# An Examination of Consumer Behavior on eBay Motors

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### ABSTRACT

With annual sales of \$7.5 billion, eBay Motors has become one of the most important online marketplaces. For several years, researchers have used eBay transactions as a mechanism for examining consumer behavior and economic relationships in Internet auctions. As automobiles have emerged as the leading product category on eBay, research focused specifically on eBay Motors is an important extension to this line of research. This study builds on past research by examining research questions using a sample of 126 eBay Motors exchanges along with benchmark pricing data from Kelley Blue Book. The findings of the study suggest that, within selected data ranges, such factors as seller feedback ratings, number of pictures in item description, and seller type (dealer vs. individual) may affect the percentage of retail value that sellers are able to earn in eBay Motors auctions.

### INTRODUCTION

What product generates the most revenue for eBay? Many people are surprised to learn that the answer is automobiles. It may seem ironic that a product that requires such a substantial investment and carries such a great degree of risk could be traded using a site originally developed for trading Pez dispensers. Nonetheless, not only has eBay become a legitimate channel for automobile sales, it has, in fact, become the world's largest automobile marketplace.

Ever since the emergence of eBay as a phenomenon of the Internet age, academic researchers from various disciplines have collected eBay data to examine consumer behavior in Internet auctions. Most of these studies have examined standardized products (such as computers and disk drives) or collectibles (such as coins and stamps). In recent years, businesses of all sizes have recognized the potential of using eBay as

a channel for products of various types. As the focus of eBay has expanded beyond a collectables trading site, it becomes an even more valuable source for e-business researchers.

Previous research has examined the relationship between user reputation (using eBay's feedback ratings) and auction pricing (Dellarocas, 2003). This study will examine these relationships as they pertain to automobile pricing. We also examine some additional relationships particular to automobile auctions, including the impact of seller type (dealer or individual), age of automobile, and the number of digital images included in the auction listing. The results of this study will extend the knowledge of consumer behavior in Internet auctions using an important emerging product type. The remainder of this paper is organized according to the following sections. We briefly describe eBay Motors' rating system and listing functions, provide background information on the use of the Internet as a channel for auto sales, and summarize previous research on auction pricing and reputation. Next, we describe the study's methodology, providing a description of variables and hypotheses. We then provide statistical analyses and discussion based on a sample of 126 auction listings. Finally, we provide conclusions and describe future directions for this line of research.

## **BACKGROUND AND LITERATURE REVIEW**

### **eBay Feedback and Listings**

Using the same reputation system as eBay's traditional site, users of eBay Motors have official reputations represented by a "feedback profile." After a transaction has been completed, eBay trading partners have the opportunity to rate their partner by leaving either a positive, negative, or neutral rating, along with a comment of up to 80 characters in length (see Figure 1). As a

member accumulates feedback, a user rating is calculated with each positive comment earning +1 points, each neutral comment earns +0 points, and each negative comment earns -1 points (eBay Feedback Forum, 2004). This rating and the percentage of feedback rated positively are prominently displayed next to the user's ID (see Figure 2). Though not required, participation levels at eBay are remarkably high as buyers leave feedback on sellers 52.1% of the time and sellers on buyers 60.6% of the time (Dellarocas, 2003). Once left, a comment cannot be edited and becomes a permanent part of the feedback profile. Thus, a negative or even a neutral rating can be detrimental to the user's ability to sell in the eBay community in the future.

eBay Motors auction listings contain fundamental bidding data such as the winning bid, ending date and time, number of bids, and so forth. The listings also allow sellers to provide a formatted Web page that describes the vehicle and displays multiple pictures that can be enlarged to show details. The description and pictures of the vehicle are very important in overcoming the limitations of an online automobile marketplace. A previous study (Sena, Heath, & Webb, 2004) suggests that the quality of an auction's description might impact the final winning price of the auction.

It is important to note that, like traditional eBay auctions, eBay Motors utilizes proxy bidding (users specify their highest price and the system automatically increases the winning bid when necessary), which means that the final bid price is typically determined by the second highest bidder. For example, if the winning bidder listed \$10,000 as the highest amount willing to pay and (ultimately) the second-highest bidder placed a bid of, say, \$9,500, then the winning bid price would be \$9,600 (the second place amount plus an increment of \$100). In other auction listings, the winning price could be determined by a "buy it now" price set by the seller which, if selected by a bidder, ends the auction immediately.

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