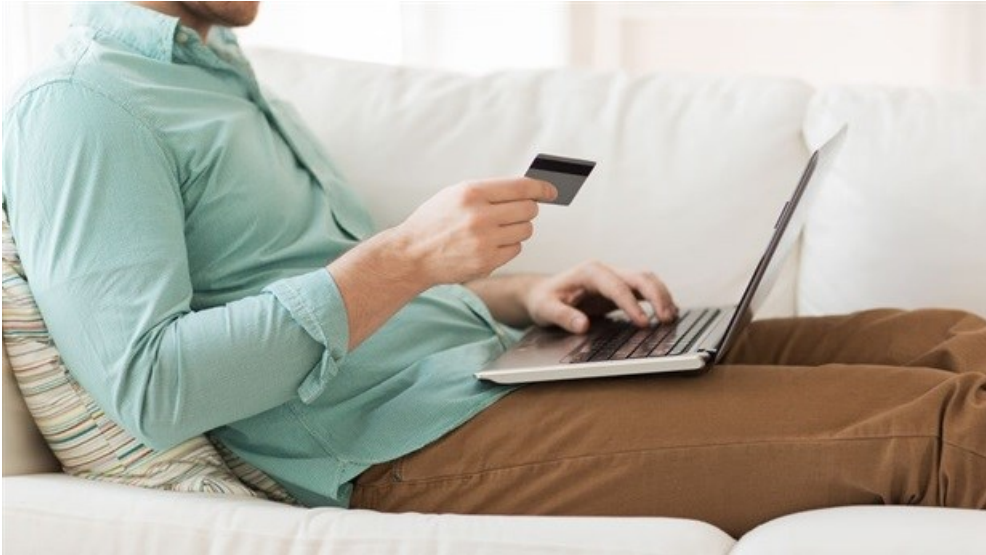


Sellers' reputations in e-retail markets: do they matter?

By [Fabrizio Casalin](#)

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The volume of online sales has skyrocketed over the last 10 years, taking up larger and larger shares of total retail sales. E-retail sales account now for [10.2% of all retail sales worldwide](#) and they are expected to reach [33% of total sales in China this year](#).



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Sales on electronic platforms have the peculiarity that prospective buyers cannot directly check the features and intrinsic quality of items. Instead, they have to rely on the information disclosed by sellers who have therefore an informational advantage. Sellers could in principle trick buyers by passing off low-quality items as being high quality.

Buyers might anticipate this by simply refusing to buy, or by offering a lower price for the same transactions. This action/reaction by sellers and buyers could lead to a situation in which e-retail markets do not work at their full potential, and only a limited number of transactions occur. Thus, establishing a relationship of trust between sellers and buyers is paramount.

Rating the sellers' ratings

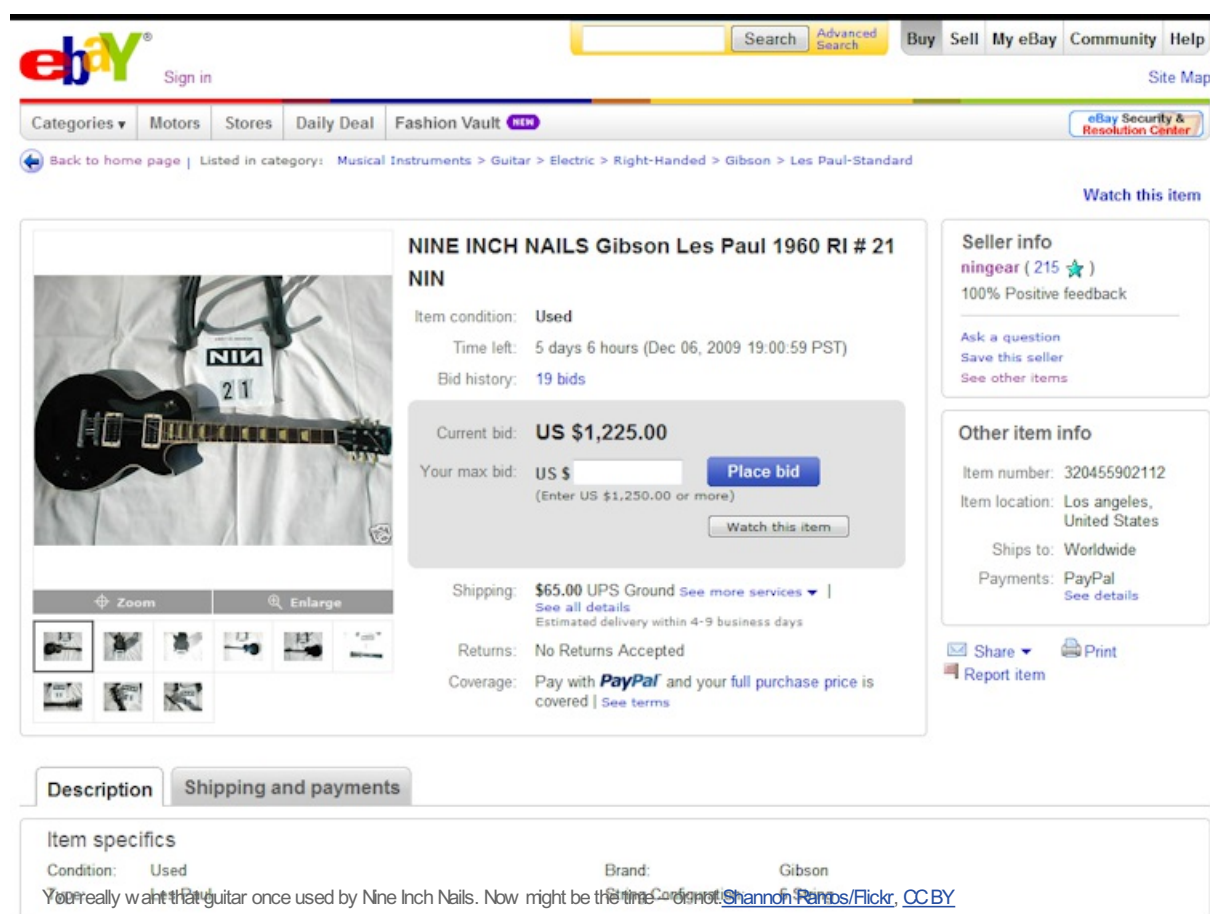
E-platforms have traditionally tackled this issue by setting up a system through which buyers can rate sellers. The idea is that sellers with strong reputations are those less likely to trick buyers by selling items whose features and/or quality do not correspond to the ones advertised. Having high feedback scores is nowadays perceived as paramount to become a successful seller. Similarly, the ability to gather as many sellers as possible with high reputation scores is regarded as crucial for the success of e-platforms. But what is the real value of reputation scores in e-trading? Is it possible that the role of sellers' reputation is somehow over-emphasized?

In a [March 2019 research article](#), co-authored with Enzo Dia from the University of Milan Bicocca, we try to answer these questions by analysing eBay auctions of used but remanufactured electronic items. These auctions present the features of standard auctions: they all have a winning price, and often come with money-back guarantees and/or warranties for any malfunction of the items sold.

However, auctions of refurbished items have one unique feature: the refurbishment can be carried out either by vendors with the sponsorship (the approval) from the original manufacturer or by vendors without such sponsorship.

Buyers usually take the presence of such sponsorship as a signal of a high-quality refurbishment, which ultimately stands on the reputation of the original manufacturer. Thus, when non-manufacturer-approved sellers carry out the refurbishment, the original manufacturer cannot guarantee the quality of the process. In this case, the sellers' feedback scores capture two different types of reputation: the reliability in the disclosure of truthful features of the items on sale, and the ability to deliver refurbishment of high quality.

On the contrary, when auctioned items undergo a refurbishment by manufacturer-approved vendors, the original manufacturers guarantee the quality of the process. In this last case, the information of feedback scores is limited to how reliable vendors are in the disclosure of items' features that correspond to reality.



The screenshot shows an eBay auction page for a "NINE INCH NAILS Gibson Les Paul 1960 RI # 21 NIN". The item is in "Used" condition and has 19 bids. The current bid is US \$1,225.00. The seller is "ningear" with a 100% positive feedback score. The item is located in Los Angeles, United States, and ships worldwide. The seller offers PayPal as a payment method. The page includes a description of the item, shipping and payment details, and a gallery of images.

Item specifics

Condition:	Brand:	Model:
Used	Gibson	Les Paul

You really want that guitar once used by Nine Inch Nails. Now might be the time to own it. [Shannon Farns/Flickr, CC BY](#)

Do guarantees help?

To measure the importance of feedback scores, as well as the presence of money-back guarantees, we studied how these last impact on the winning prices of auctions. The rationale here is the following: auctions that feature high feedback scores and money-back guarantees offer greater protection against the possibility that sellers pass off items with characteristics and/or quality not corresponding to those advertised.

If the presence of high feedback scores and money-back guarantees is perceived by buyers as something able to reduce the risk of buying unwanted items, then buyers should be willing to pay higher auction prices.

We investigate whether the above dynamics hold using a set of almost 1,000 eBay auctions of remanufactured electronic items. Our empirical results show that, quite surprisingly, the role of feedback scores is rather limited. We find that buyers perceive feedback scores as important, but only when the refurbishment is carried out by non-manufacturer-approved sellers. In this case, the lack of sponsorship by the original manufacturer makes the ability of sellers to deliver high-quality refurbishment of items uncertain.

As a result, the best buyers can do to make a guess on such ability is to resort to sellers' feedback scores. When, instead, manufacturer-approved vendors carry out the refurbishment, buyers do not perceive the information conveyed by feedback scores as something valuable. This is the case where the ability of sellers to deliver high-quality refurbishment is certified by the original manufacturer so that the information content of feedback scores becomes limited to the sellers' reliability in the disclosure of truthful features of the items on sale. It is this last type of information that buyers regard as valueless.



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Price matters

The second important result is that buyers perceive feedback scores as important, but only for items of low value. More specifically, when we partition our sample of auctions according to the value of the transactions, we show that feedback scores command a premium on auction prices limitedly to items of low value. On the contrary, we find that buyers perceive money-back guarantees as important, but only for the cohort of more expensive goods.

This last result is even more disappointing than the previous ones, as it suggests that when the value of the auctioned items increases, buyers tend to dismiss the information content of feedback scores to attach greater value to alternative – and more radical – methods to fix the information advantage of sellers such as money-back guarantees.

Overall, we find the importance of feedback scores greatly limited as they count only for low-value auctions that feature non-manufacturer-approved vendors. This is at odds with the widespread belief that the sellers' reputation is a key element in e-retail markets. Of course, these results do not mean that the reputation of sellers is not important. On the contrary, they only suggest that feedback scores – as currently designed – might not be as relevant as previously thought.

Reputation scores still have, in all likelihood, an important role in the functioning of e-platforms, but they have to be re-designed in such a way that they can convey more and better aspects of sellers' past performances. For instance, the disaggregation of feedback scores from one single figure into multiple indicators – better able to account for specific aspects of e-retail transactions – seems to be a promising way forward to boost the importance of reputation scores.

Casalin and Dia, [*"Information and reputation mechanisms in auctions of remanufactured goods"*](#), *International Journal of Industrial Organization* 63 (2019) 185–212.

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