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A Case Report for Getting Tools Used



NOTE: THIS IS ONLY A PORTION OF THE GETTING TOOLS USED RESEARCH REPORT. FOR THE FULL DOCUMENT AND OTHER INFORMATION VISIT WWW.CFAH.ORG.

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Foreword

In line with the objectives of the Getting Tools Used project, this case report focuses on eBay.com as an online decision support tool that enables individual consumers to:

- Find information on products and sellers.
- Compare offerings.
- Make decisions about whether to bid (or purchase a fixed-price listing) or not.
- Access product reviews and buying guides developed by other consumers.
- Learn how to use the eBay.com tool effectively from peers and eBay staff.

(See the Tool Description section.)

Besides its wide use, eBay.com is also of interest because it was a leader in creating the community-commerce Web 2.0 model. That is, eBay.com serves as a technology intermediary that enables users to generate both content (such as auction and retail listings as well as information) and experiences (such as trading, interaction and learning) that drive new and repeat use of the site. Some healthcare groups have been adapting this model to develop interactive online communities and tools (a.k.a. Health 2.0) to help consumers manage chronic diseases, select among treatment options, obtain support for practicing healthy behaviors, and more.

Americans often turn to eBay.com for necessities and discretionary (i.e., wanted) items, such as clothing, consumer electronics, household goods, and collectibles. The case report does not include eBay.com Motors, a source for expensive durable goods.

eBay is also a global phenomenon, but for the project purposes, the focus is on how eBay.com serves the American consumer. The report does not discuss eBay.com as a platform for business-to-business transactions or eBay's other business units such as PayPal and Skype. It has limited information about eBay.com in regards to how sellers use the site.

Terms Used in this Report

- *eBay* refers to the company
- *eBay.com* refers to the actual Web site
- *eBay marketplaces* refers to eBay's set of e-commerce sites that include eBay.com, Shopping.com, StubHub.com and others
- *eBay.com users* refers to registered users of eBay.com, including buyers and sellers

-
- *eBay.com visitors* refers to anyone on the eBay.com site, not just registered users
 - *Feedback* refers to comments and ratings that a buyer and seller provide on each other after completing a transaction

Background

eBay.com is best known as an open-trading or auction platform that enables the market to set the price of items in consumer-to-consumer and other types of transactions. It is not an auction house (see Resources and Constraints sections).ⁱ Since 1999, eBay.com buyers have had the option to purchase fixed-price items as well. Fixed-price merchandise on eBay.com is a fast-growing segment, contributing a 13 percent increase in gross merchandise volume in 2007 as compared to 2006 on all eBay marketplace sites.ⁱⁱ (Gross merchandise volume is the value of all goods sold.) Auction-style listings still account for 60 percent of eBay's gross merchandise volume.ⁱⁱⁱ

In 2007, around half of the total value of sold items on eBay.com and other eBay marketplace sites came from four product categories.

- Clothing and accessories (15 percent)
- Consumer electronics (15 percent)
- Home and garden (12 percent)
- Computers (10 percent)^{iv}

When consumers consider which auction site to use, they are looking for accurate information about items to inform their shopping, security for personal information and payment, and reliability in receiving items, as advertised, after purchase. Other desired features are a positive reputation and navigation ease, including customization.^{v, vi}

From a decision support tool perspective, any eBay.com visitor can check the availability of items of interest, drill down to obtain additional information on a particular item, compare a set of items and read eBay.com users' reviews, buying guides and opinions.

Owner

eBay, Inc. owns eBay.com, which operates in the U.S. and 38 other markets.

Business Model for eBay.com

The core eBay.com business model is the provision of an open-trading platform where the market, via users' online interactions, determines the value of new and second-hand items available. eBay.com is an automated platform in that eBay does not screen sellers or authenticate listings.

eBay.com seller fees are a primary revenue source. Sellers pay:

- *Insertion fees* to list items for auction or at a fixed price.
- *Final-value fees* based on the closing price.
- *Optional feature fees*, such as establishing a reserve or a starting price for an auction, adding a "buy it now" option to an auction listing, upgrading listings, or providing more than one photograph in a listing.^{vii}

eBay seeks to keep fees competitive to attract sellers and encourage a high volume of listings.^{viii} Although consumers must register with eBay.com to bid, purchase or list items, eBay does not charge registration or bidding fees. (Other sources of eBay.com-related revenue are external advertising and PayPal fees for processing payments on eBay.com listings.)

The eBay 2007 annual report describes a multi-faceted business growth strategy for eBay.com.

- Retain current registered users, especially top buyers and sellers
- Attract new users
- Deepen and broaden supply by increasing users' trading activity levels
- Encourage additional purchases
- Develop new revenue sources (such as adding new listing categories or providing new fee-based services to sellers)
- Expand advertising revenue^{ix}

In general, eBay.com seeks to encourage an increased number of completed transactions and higher closing bids or prices.^x As eBay gained access to capital and matured, it also pursued two other strategies.

- Acquire competitors, strategic partners (such as PayPal) and promising e-commerce ventures

- Enter new geographical markets, especially those in the early stage of e-commerce development

Historic Milestones for eBay.com

1995	Over a weekend, Pierre Omidyar develops an automated Web site to provide an inexpensive, efficient platform for consumer-to-consumer auctions. He initially calls the company Auction Web and describes its principles as: “people are basically good, everyone has something to offer, [and] an open environment brings out the best in people.” ^{xi}
1997	Color computer monitors are becoming commonplace, but Auction Web displays in black and white. Besides online auctions, the Web site has sections for Omidyar’s fiancée and his pet interest, the Ebola virus. ^{xii}
1998	Meg Whitman joins eBay as president and CEO. eBay becomes a publicly traded company.
1999-2001	eBay repositions eBay.com from a specialty platform for online trading of collectibles to a competitive source for mainstream consumer goods, in part by attracting brand-name retailers (such as Disney, IBM and Sears). ^{xiii}
2002	eBay acquires PayPal, a global online payment company.
2008	John Donahoe succeeds Whitman as eBay’s president and CEO.

Historical Context

During the 1990s, the number of Americans with Internet access grew exponentially, whether at work, home or both. Although slow at first, consumers increasingly started purchasing goods and services via the Internet. Economic growth in the 1990s and the mid-2000s, investor enthusiasm during the technology boom, falling computer prices, technology advances and increased broadband Internet connections were some of the macro forces fueling rapid growth in e-commerce.^{xiv}

Consumers' Decision Making on Necessities and Discretionary Goods

The discussion in this section centers on decisions consumers may make in selecting and buying necessities and discretionary items. (Although presented sequentially, the decisions may not occur in this order; some decisions may not occur at all.)

Necessity items are frequently bought, and many entail low outlays. Discretionary items have a range of purchasing frequencies and outlay costs. On average, Americans spend 20-30 minutes per day purchasing goods and services, according to the Bureau of Labor Statistics.^{xv}

Decision One: Go Online or to a Traditional Venue

Consumers decide where to shop: an online retailer or a traditional venue such as a store, yard sale or auction. Each offers a different experience, so the decision entails tradeoffs.

Consumers with both basic and advanced technology skills make online purchases.

Consumers with less Internet experience are less likely to use the Internet to access online auctions than more experienced ones.^{xvi, xvii}

Several factors influence consumers' choice of shopping online or offline.

- Perceived risk (especially online privacy and the security of personal and credit card information)
- Pricing
- Supply of items
- Customer service
- Brand recognition
- Effort and time required
- Quality of shopping experience^{xviii, xix, xx, xxi, xxii}

Online shopping facilitators can include the ease and efficiency of Internet searches and improved convenience of going online.^{xxiii, xxiv, xxv}

Possible barriers include negative past experiences with online shopping. In a 2007 national survey of Internet users sponsored by the Pew Internet and American Life Project, 58 percent of respondents reported prior experiences of feeling frustrated by inadequate information or being confused or overwhelmed by information they found while shopping online.^{xxvi}

Decision Two: Choose e-Commerce Site

If a decision is made to go online, then the selection involves the type of marketplace and a specific site. A variety of factors can influence the choice of e-commerce site.

- Consumer trust in the online business
- Convenience
- Ease of navigation
- Search functionality (such as being able to quickly locate desired item)
- System reliability in general
- System quality (such as information, service, offerings, delivery)
- Dispute resolution if a problem occurs
- Delivery reliability
- Payment security
- Community features (such as social networking, consumer reviews)
- Pricing, including shipping and handling or other fees, if any
- Product characteristics (such as amount of differentiation, outlay, frequency of purchase)
- Consumer characteristics (such as task or experiential orientation, socio-demographics, personality and Internet experience, to name a few)^{xxvii, xxviii, xxix, xxx, xxxi, xxxii, xxxiii}

Among online shoppers globally, recommendations from family, friends or other online shoppers also have a considerable influence on the site choice, according to Nielsen research. One in four online shoppers rely on personal recommendations – whether people they know or fellow online shoppers – in deciding which shopping site to use.^{xxxiv} (See Current Use section for data on eBay.com and competitors.)

Notably, 60 percent of global online shoppers tend to buy mostly from one shopping site. Thus, online retailers that capture new online shoppers early and provide a positive shopping experience are often rewarded with return sales.^{xxxv} Giving customers a way to interact with a virtual community is one way that corporations foster loyalty to their shopping sites. Studies show customers who participate in virtual communities are highly loyal to the e-commerce sites providing these social experiences. Because of their strong relationships with the sponsor and the virtual community, these consumers invest more into the community and believe they receive more in return. These strong community ties increase the time, cost and effort required for consumers to switch to another virtual community and shopping site.^{xxxvi, xxxvii, xxxviii}

The inherent risk involved in online auctions may deter participation in auction Web sites.^{xxxix} Will the seller deliver the goods after being paid? Will the item be in the advertised condition? What happens if the item is damaged during shipping? Can it be returned if it is

unsatisfactory? Compared to traditional auctions, online formats can be perceived as riskier because buyers are dealing with unknown sellers and cannot physically inspect the listed items.^{xi, xli, xlii}

Another risk characteristic of auctions – whether traditional or online – is the uncertain outcome, which can change in the last second of the listing. For consumers who prefer to not have their purchase dependent on auction activity, eBay.com users can seek out non-auction formats.

Decision Three: Finding and Selecting among Online Offerings

As the stakes rise for consumers, especially in terms of price and commitment (such as a cell phone and a two-year service contract), consumers are more likely to go online for information prior to purchase.^{xliii} Yet, the Internet, including eBay.com, are just one of many information sources consumers use when researching a purchase. It is rare for a shopper to make a decision only based on Internet information.^{xliv}

Some studies suggest that once online shoppers go to an e-commerce site, they tend to not comparison shop for the same item on other Web sites.^{xlv} If the decision is to shop on eBay.com, consumers then consider and select among similar listings. Factors that generally influence the selection of a specific item include:

- Consumer characteristics, especially family needs, budget and time available for shopping.
- Product characteristics.^{xlvi, xlvii} (See Decision Two.)

The listing format may affect the selection process. Participating in an online auction requires time and effort to monitor an auction that can last several days; this may prompt some shoppers to opt for listings with a fixed-price format or a “buy it now” option. (Sellers can add a “Buy It Now” icon to both fixed-price and auction formats. In the latter, a buyer can either bid as part of the auction or can opt to “buy it now,” in which they purchase the item immediately at the seller’s listed price, effectively preempting the auction.)

Decision Four: Deciding Whether to Buy or Bid on an Offering

Next, consumers decide whether to purchase by buying or bidding on an item if the shopping site is eBay.com. Research suggests persons with Internet experience and knowledge are more likely to purchase and pay for items online.^{xlviii, xlix} Other studies have found e-consumers are more likely to purchase online if they:

- Are time- or price-conscious.

-
- View shopping online as enjoyable or compatible with their lifestyle.
 - Are less risk adverse.
 - Prefer brands.
 - Have a social network that shops online.^{i, ii}

Research findings on online shopping behavior and consumer socio-demographics are mixed. In general, men with higher educational attainment and higher incomes are more likely to complete purchases online than other groups.ⁱⁱⁱ

Perceived risk – such as being familiar with and confident in the seller – remains a factor in the decision to purchase.

- If perceived risk is high, shoppers may not bid or may keep their bids low.ⁱⁱⁱ
- Consumers generally trust and use other consumers' ratings of merchants as one indication that the seller is reliable.^{iv} Positive reputation ratings can be viewed as a surrogate guarantee of quality.^{iv}
- eBay.com shoppers are more likely to trade with sellers who have positive reputations (which is based on feedback from the seller's other buyers) than sellers with negative reputations.^{vi, lvii}
- Studies comparing consumer behavior with low- and high-reputation sellers have found that consumers are more careful (such as take more time deciding and consider surcharges). They are also less willing to pay when considering a listing from a low-reputation seller.^{lviii}
- Participating in a shopping site's virtual community may lower perceived risk.^{lix} (See eBay.com Community section.)

A small study of eBay.com auctions (n=423) featuring business calculators suggests consumers are more willing to make a bid or to bid a higher amount in auctions with these "risk-reducing" features.

- Listing has either a photograph of the actual item or a stock photograph
- "New in Box" appears in the auction heading^{lx}

Conversely, listings with risk-enhancing features – a listing that mentions "wear" or lacks a photograph – were less likely to result in a sale. Risky listings also sold at a low final price.^{lxi}

Another small pricing study of eBay.com auctions of Dell LCD monitors that received bids (n=742) found a positive correlation between higher prices and:

-
- Starting bid.
 - Auctions ending on Saturday or Sunday.
 - Buyers with less bidding experience.
 - Sellers with positive reputation ratings.^{lxii}

Finally, a study of reserve prices in 1,630 eBay.com auction listings for antique sterling silver flatware suggests that consumers bid higher on auctions with:

- Many bidders as compared to auctions with few bidders.
- A higher opening bid, as compared to auctions with a lower opening bid.^{lxiii}

Objectives for eBay.com

As a commercial enterprise, eBay seeks to provide value to its shareholders by growing revenues from its auction Web site and other business lines. Growing eBay.com revenues – primarily seller-based fees – means providing an open trading platform that attracts a sizeable network with voluminous supply and demand.^{lxiv} Success depends on having not only a strong seller base that offers an appealing range of competitively priced items that consumers demand, but also strong visitation and purchasing rates that attract successful sellers.^{lxv, lxvi, lxvii}

For investors, eBay states its goal for the eBay marketplace sites is “to create, maintain and expand the functionality, safety, ease-of-use and reliability of our online commerce platforms while supporting the growth and success of our community of users.”^{lxviii} Its eBay.com value proposition is to attract:

- Buyers by offering “selection, value, convenience and entertainment.”
- Sellers by offering “access to global markets, cost effective marketing and distribution, access to large buyer base and good conversion rates.”^{lxix}

Audience and Use

eBay provides an online auction platform that is activated through buyers and sellers trading directly with each other. Its audience is adult Internet users, nearly all of whom (93 percent) have done some form of online shopping, whether to research a potential purchase, buy an item, trade in an auction or make travel arrangements.^{lxx} The Pew Internet and American Life Project reports that on an average day in 2007, one quarter of Internet users were engaged in

some form of e-commerce activity.^{lxxi} Among all Internet users, 26 percent have participated at least once in an online auction, with 3 percent actually doing so on any given day.^{lxxii}

Current Use

In 2003, eBay.com had a base of 30 million buyers and sellers worldwide; among auction sites, eBay.com was capturing 80 percent of the market.^{lxxiii} In 2008, across all eBay marketplaces sites, eBay reported 84.5 million active users (i.e., buyers and sellers) worldwide; however, some individuals have multiple registered user accounts on eBay.com and perhaps other eBay marketplace sites too.^{lxxiv, lxxv} (eBay defines “active registered users” as those who have bid, bought or listed an item within the previous 12-month period.)

eBay does not release data on the total number eBay.com registered users in the U.S. or other geographic market. Much of eBay’s U.S. market data for eBay.com is proprietary.^{lxxvi} One datapoint that eBay made available is U.S. market share of gross merchandise volume. In the third quarter of 2008, eBay marketplaces had a gross merchandise volume of \$14.3 billion, of which U.S. transactions were \$6.6 billion (46 percent).^{lxxvii}

Web statistics from Nielsen Online for “Black Friday,” the traditional start of the holiday shopping season, are one indication of the scale of eBay.com’s U.S. share of online shoppers. Figure 1 shows eBay.com still dominates other shopping sites, but that fewer consumers are shopping on eBay.com and may be migrating to other online retailers. Its top two online competitors, Amazon and Wal-Mart, both realized substantial growth in their unique visitors.^{lxxviii} Citing external data, industry analysts have reported that the number of unique visits to eBay.com fell at least 10 percent from October 2007 to October 2008, continuing a decline that has roots in late 2006.^{lxxix, lxxx, lxxxi, lxxxii}

Figure 1. Unique U.S. Visitors on “Black Friday” to Top Three Online Retailers, 2007 and 2008

Online Retailer	Unique Visitors in the U.S. (000)		Percent Change
	2007	2008	
eBay.com	10,837	9,871	-9%
Amazon	6,932	8,448	22%
Wal-Mart	4,509	6,029	34%

Source: Nielsen Online, NetView Custom Analysis^{lxxxiii}

Additional data illustrate eBay.com’s relative position in the e-commerce market.

- As rated by Alexa, a Web information company, eBay.com ranks 9th among U.S.-based Web site traffic, including traffic to non-shopping sites.^{lxxxiv} In 2008, eBay.com attracted about 2 percent of global Internet users per day, with 70 percent of these visitors from the U.S.^{lxxxv}
- Each eBay.com visitor views about 15 pages per day, according to Alexa.^{lxxxvi}
- With 124 million unique shoppers, eBay.com was the top online retailer in December 2007, based on the results of the Nielsen Global Online Survey. In comparison, Amazon was second highest with 100 million unique shoppers, followed by Target.com, a distant third with 37 million.^{lxxxvii}

The amount of time per month spent on a shopping site can indicate repeat visits, longer duration of visit(s) or both. It also could be a surrogate measure for the value Internet users perceive they receive from a shopping site.^{lxxxviii} In this context, the average eBay.com visitor in 2005 spent more than two hours per month using the site. In comparison, the second most visited e-commerce site, Amazon, held visitors an average of 20 minutes per month.^{lxxxix}

Descriptions of Users

To buy or sell on eBay.com, consumers must register and be 18 years or older. Figure 2 provides the most current user demographics available from eBay about eBay.com visitors (i.e., both registered users and non-registrants). Many eBay.com visitors are in their mid-30s or older. Also, the visitor base is solidly middle class, although both low-income and higher-income consumers also come to the Web site. It appears slightly more are men.

Figure 2. Demographics of eBay.com Visitors, 2005

eBay.com Demographics	Percent of eBay.com Visitors
Age	
18 – 24 years	7%
25 – 34	17%
35 – 44	26%
45 – 54	28%
55+	22%
Annual Household Income	
\$0 – 25,000	5%

eBay.com Demographics	Percent of eBay.com Visitors
\$25,000 – 50,000	23%
\$50,000 – 75,000	31%
\$75,000 – 100,000	19%
\$100,000 – 150,000	14%
\$150,000+	8%
Gender	
Male	53%
Female	47%

Source: Nielsen/NetRatings, March 2005, as cited in: eBay. (n.d.). *Seller Central Report: How Buyers Use eBay*. Retrieved Sept. 23, 2008, from <http://pages.ebay.com/sellercentral/buyers.pdf>.

Three recent exploratory studies provide additional perspectives.

- A study of 82 university students found that consumers who make eBay.com purchases had larger families and a greater “desire to have an objectively, functionally and economically satisfying buying experience” than consumers who do not buy on eBay.com.^{xc}
- Data from 753 eBay.com transactions from two sellers found rural consumers, females and people living in the Midwest, South and Southwest were more likely to buy things on eBay.com than urban consumers, males and people living in New England, the Mid-Atlantic and the West.^{xcii}
- Only a fifth (21 percent) of eBay.com sellers sold more than \$50,000 in the prior year, suggesting most are small-scale sellers, according to an *AuctionBytes* convenience survey of its subscribers in 2006.^{xcii}

eBay indicates women often buy in 11 or more eBay.com listing-categories. These shoppers reported seeking both practical and emotional benefits from eBay.com. eBay.com buyers who trade in just one to four categories tend to be men and persons who favor eBay.com because of “its ease of use and selection of unique or hard-to-find items.”^{xciii}

The eBay.com community has many different segments.^{xciv} It appeals to people who want to make informed shopping decisions and those who want to get a good bargain. Another segment are consumers who have a niche interest or hobby.^{xcv}

Descriptions of Nonusers

As indicated by eBay.com data in Figure 2, low-income households with an annual income of less than \$25,000 are the least likely to use eBay.^{xcvi} A 2007 survey of Internet users sponsored by the Pew Internet and American Life Project provides some insights. Specifically, compared to Internet users from households with higher incomes, low-income respondents were most likely to express concerns about providing credit card or personal information online and least likely to perceive online shopping as possibly time-saving or convenient. Pew also notes that this low-income group shops less frequently (both offline and online) than higher income groups.^{xcvii}

Other consumers who do not use eBay.com may include:

- People without Internet access at home, on the job or both.
- Consumers who think they lack the time, knowledge or skills to participate in online auctions as a buyer or seller; some may not know that eBay.com has fixed-price listings.
- People who do not want the risks associated with participating in an auction.
- Consumers who perceive a high potential for fraud on eBay.com for privacy violations.
- People who are unaware of eBay.com.

Resources

Beyond its unique niche with online auctions, eBay.com had the advantage of being first to market, particularly in the consumer-to-consumer segment, which enabled it to establish early dominance in e-commerce.^{xcviii, xcix} Today, eBay.com is still the top online shopping destination, helping it attract sellers and advertisers. (See Current Use section.)

eBay.com's long dominance is in part due to the groundbreaking strategy of designing a participatory e-commerce or Web 2.0 platform. Specifically, the Web site design engages voluntary users in creating value for themselves and others in the eBay.com community by:

- Generating site content, primarily listings as well as information.
- Producing trading, interactive and learning experiences that drive new and repeat use of the site.^c
- (In contrast, the e-commerce Web 1.0 platforms of competitors were mostly a unidirectional stream with the company/sponsor providing content and value.)

For much of its history, the cost of starting to sell or auction items on eBay.com was low, helping spur a fast-growing base of successful and enthusiastic sellers. In the early years, this

seller base and their listings helped fuel eBay.com's popularity and attract new buyers and sellers.^{ci}

eBay's founders understood that as consumers added content to and interacted on eBay.com, the site would provide greater value to all, creating a virtuous cycle.^{cii} This underlying principle is evident in how eBay sought to grow revenue between 2000 and 2001 by repositioning eBay.com from an e-commerce site specializing in collectibles to a competitive source of mainstream consumer goods. Its dual strategy entailed attracting new audiences, especially through word-of-mouth, and expanding listing categories. In just one year, eBay.com more than doubled its total categories, going from 8,000 to 18,000, and expanded its registered users from 22 million to 42 million.^{ciii, civ} On an average day, all eBay marketplace sites have a total of 112 million items listed.^{cv}

As both sides (buyer and seller) of the eBay.com network sides grew, it became harder for competitors to gain a foothold.^{cvi} Today, the eBay.com active user base, possibly one of the largest for an e-commerce site, is a foremost asset. The base provides both supply and demand on eBay.com.

The company also depends on users both to refer family and friends and to enhance trading activity by supporting eBay.com peers. In terms of the latter, users help each other by answering questions, posting tips and reviewing products in eBay.com community forums. Leveraging user-to-user guidance helps the company minimize customer-support expenses.^{cvi}

The sense of community among eBay.com users is another critical asset. As marketing scholars Jonna Holland and Stacey Menzel Baker (2001) note:

[A]llowing for users to communicate with each other on a company's site does not automatically foster a sense of community. What is necessary is a critical mass of users with a sense of collaboration, loyalty, and social trust.^{cviii}

Other resources gave eBay.com a market advantage.

- Through the years, both national and local media have extensively covered eBay, helping increase its visibility and facilitating not only widespread acceptance of online auctions and e-commerce but also trust in the eBay brand.^{cix} In a 2001 article, *The Economist* described eBay as "among the world's best known brands."^{cx}
- As a household name, eBay.com was promoted through word-of-mouth or viral marketing as friends and family told each other about great bargains they got, earnings from selling items and amusing experiences.^{cx, cxii} Nielsen research indicates that in the global online

market, word-of-mouth, over other forms of referral, remains important in building market share.^{cxiii}

- Many e-commerce sites offer only new products. By providing a trading platform for new and second-hand goods, eBay.com broadened its market base.
- Online shopping sites have convenience advantages over traditional retail and auctions. The e-commerce sites are open 24/7/365 and accessible from homes, offices and other settings with a computer and Internet connection.

eBay's positive reputation was essential to its success. Two indicators that many people trusted eBay.com as a reliable, safe marketplace are the rapid growth of buyers and the occurrence of repeat transactions.^{cxiv, cxv} Recognizing the need to preserve users' confidence, eBay has taken steps to keep fraud low on eBay.com and to educate buyers. For example, working with federal regulators, eBay halted auctions of potentially unsafe cribs in October 2008.^{cxvi} In several places on eBay.com, eBay has notices about products recalled by the Consumer Product Safety Commission. (See Barriers section for additional eBay efforts.) In a 2003 *CNET News* article, Federal Trade Commission official Howard Beales is described as praising eBay "for cooperating with authorities on fraud investigations."^{cxvii}

eBay indicates it does not have a precise fraud rate but in the past has claimed it could be as low as 0.1 percent.^{cxviii} Critics and competitors indicate eBay.com fraud from buyers and sellers is higher than this, particularly in some categories, but have not produced an exact rate.^{cxix, cxx, cxxi, cxxii} (See Constraints, next section.)

Constraints

eBay.com use and revenues hinge on sellers offering goods that consumers want. Thus, eBay has to strive to keep both eBay.com buyers *and* sellers engaged and satisfied. This balance is difficult to achieve because a change that benefits one group can be less advantageous to the other. In terms of sellers, eBay faces tradeoffs between satisfying its powerful corporate merchants, individual professional sellers and casual sellers.^{cxiii, cxiv} eBay.com users are known to be highly vocal when eBay makes an unpopular change; criticism appears on both eBay.com community forums and external blogs and communications forums.

To date, the company has avoided complete overhauls of eBay.com. Instead, it makes incremental changes after pre-testing potential improvements. One reason is to minimize the risk of alienating the eBay.com community.^{cxv} Another is that even minor changes to the complex eBay.com system can trigger negative, unintended consequences.^{cxvi} (See Updating and the Use of Data sections for examples of incremental changes.) The cost, according to e-

commerce analysts, is a “dated user interface” and “lackluster technology platform.” Specifically, search functionality and user experience have not kept pace with competitors, contributing to eBay.com’s soft business performance in recent years.^{cxxvii, cxxviii}

To attract and retain sellers, eBay has strived to keep the low the time and financial costs of becoming an eBay.com seller. It has used other strategies to reduce sellers’ perceived risk.

- Accessible data on completed listings gives potential sellers (and buyers) information about prior demand and final pricing for many items.
- Sellers can set a minimum starting price for the bidding.
- A reserve price allows sellers to set a hidden minimum price to protect themselves from a final price they would find unacceptable. The related risk is that the item will not sell if bidding fails to match or exceed the reserve price.
- A fixed-price listing provides sellers a guaranteed price, although they forego the opportunity of the auction process setting a higher price. With a fixed-price format, sellers assume the risk that their pricing may be too high, with the associated consequence of reduced demand.
- A “buy it now” feature on an auction or fixed-price listing lets sellers increase the odds of a purchase.
- Sellers set their shipping and handling fees, which winning bidders also must pay.
- Periodic promotions lower sellers’ insertion fees for a limited time period.^{cxxix}

If eBay.com were an auction house, the corporation would have considerable liability exposure and would have to comply with national auction regulations. This was one reason eBay.com was created as an automated platform that stores information and provides a service by hosting user-to-user communications; thus, eBay.com is positioned as a technology service provider instead of a firm that conducts auctions.^{cxxx} Even so, eBay has faced potential and actual lawsuits concerning counterfeit designer goods and copyright infringement.^{cxxxi, cxxxii}

Deceptive or illicit sellers are a major constraint for eBay.com. *Consumer Reports* warns readers that online trading of counterfeit goods may be higher than ever.^{cxxxiii} In the magazine’s 2007 survey of subscribers (n=2,500), among those who had purchased on eBay.com in the past year:

- Almost half reported encountering deceptions, including sellers who took their money but did not send the goods or who had inaccurate or deceptive item descriptions.
- Forty percent described eBay.com’s help and customer support as fair or poor.
- Seventy percent were highly satisfied overall when buying on eBay, and about 90 percent of purchases arrived on time, were accurately described and were perceived a good deal.

- Nearly half of respondents characterized eBay.com as an excellent source of hard-to-find items.^{cxxxiv}
- In a related study, secret shoppers for Consumer Reports were readily able to obtain goods on eBay.com that the Consumer Product Safety Commission had recalled for safety reasons.^{cxxxv}
- The relative ease of becoming an eBay.com seller can attract deceptive vendors.^{cxxxvi} Wharton information economist Eric Clemons has identified other systemic weaknesses in the eBay.com model that make the site vulnerable to fraud.
- Deceptive sellers can readily “disappear” by ending their registered-user status; they can then reappear under a different registered identity.
- The existence of fraudulent merchandise, such as in designer goods and expensive collectibles, on eBay.com heightens consumers’ perceived risk and lowers their willingness to pay.
- eBay has been reluctant to halt listings of alleged counterfeit listings upon complaints.
- Buyer protection programs and services are inadequate.
- Seller feedback or reputation systems can be manipulated to buyers’ disadvantage.^{cxxxvii}

Barriers

In general, perceived risk of Internet fraud can prohibit consumers from bidding in an online auction or may reduce the amount they bid on a listing.^{cxxxviii, cxxxix} The perceived risk can be high when bidders and sellers are anonymous, as are eBay.com users who often have a user name that is different from their actual name.^{cxli}

To minimize risk as a participation barrier without squelching the risk aspects that make an auction fun or game-like, eBay invests in sophisticated technologies and systems to reduce the perceived risk for buyers and sellers.^{cxli} Some of its anti-fraud systems include:

- Information technologies that flag potential abuse so it can be quickly examined and managed. Follow-up actions include warning users, removing listings, blocking users who violate eBay.com rules and working closely with law enforcement partners on potential fraud or intellectual property rights violations.
- PayPal, a payment processing system that facilitates quick and easy financial transactions in many currencies. PayPal offers automatic buyer protection coverage for many transactions.
- eBay.com feedback system that encourages buyers and sellers to rate each other after a transaction as a way of informing future traders and discouraging misuse of eBay.com.

- eBay.com policies (such as bans against gun listings) and regulatory systems that protect online privacy.

In 2007, *Consumer Reports* described eBay as having 2,000 staff who police eBay.com. With a workload of 6.4 million new listings per day and 100 million listings, the company may lack adequate resources to shut down questionable auctions.^{cxliii}

(See the Consumers' Decision Making section for general barriers to online shopping and auctions. See the Facilitators section for changes in U.S. macroeconomic conditions and implications for e-commerce.)

Facilitators

The following macro conditions are some of the many external forces that may promote - or hinder - the extent to which Americans use eBay.com.

- Economic conditions can affect eBay.com use and gross merchandise volume. For example, the U.S. recession in 2008 and weakened consumer spending is affecting eBay.com sales.^{cxliii} Conversely, economic growth and increased real per-capita income would be expected to boost eBay.com trading and revenues.
- Fierce competition from other companies vying for buyers and, in some cases, sellers. eBay identifies competitors in these categories.
 - Broad-based e-commerce sites such as Amazon and Buy.com
 - National retail chains with both traditional stores and Web sites, such as Wal-Mart and Target
 - Home Shopping Network
 - Specialty retailers, such as Best Buy and Overstock.com

These competitors, if successful, can siphon buyers and sales from eBay.com.^{cxliv, cxlv} Alexa reports that Onsale.com, Yahoo!, UBid.com, ToysRUs.com and Sothebys.com are other U.S.-based sites that attract people who also visit eBay.com.^{cxlvi}

- Laws and regulations affecting e-commerce constantly change in the U.S. and abroad, resulting in new or improved business opportunities as well as additional restrictions and liability.
- Users' alleged or actual infringement of intellectual property rights can lead to litigation and negative publicity.
- External changes in consumer confidence can affect online shopping and transactions.
- Third-party disruptions or security breaches of eBay.com could reduce trading.^{cxlvii}

Auction-Related Facilitators

eBay focused on auctions, which can appeal to many Americans because they are entertaining, lively and exciting.

- Many people like competition.
- The interactive nature of the auction, along with eBay.com's feedback system, lets buyers and sellers connect with people all over the country and the world.^{cxlviii}
- The wide array of ever-changing listings from the eBay.com community can surprise and amuse.
- Collectibles can be an instant shared-interest, helping fuel the development of the initial eBay.com community.
- Auctions can be addictive, in the enthusiast sense of the word.
- The online format of the auction, in which a listing can continue for hours or several days, encourages bidders to repeatedly log into eBay.com from any computer with Internet access. Bidders can also monitor, participate in and receive alerts on auctions through mobile and wireless devices.

Tool Design

eBay continually strives to improve eBay.com and the rules and policies that promote a safe trading environment (see Testing and Evaluation section).

Tool Description

An underlying strategy across eBay.com is the deliberate effort to engage users in providing content and social interaction.^{cxlix} First, the auction process is interactive by nature. Second, the eBay.com feedback system provides a default platform for buyers and sellers to communicate after the transaction and inform other users. Third, nearly all adjunct services on eBay.com have forums for users to communicate with each other, the most prominent being eBay.com community.

eBay.com Trading/Marketplace Platform

eBay.com provides an automated interface for sellers and buyers to trade through an auction, retail or combination format. It assists potential buyers in expanding or narrowing items of interest to the buyer through a set of filters regarding:

- Item characteristics (such as new or used condition, price).
- Source (such as seller's reputation, distance).
- Format (such as auctions, fixed-price, a "buy it now" feature).

Buyers also receive other information to aid the shopping decision, including shipping fees, time remaining until the item is removed and number of bids (auction only). They can check completed listings to see how much an item might be worth. The Web site allows buyers to sort the items of interest and display the items in a variety of formats.

For auctions, eBay.com provides the choice of placing bids and then monitoring the auction to decide whether to make additional bids. A buyer's bid is a binding commitment to purchase the items if they place the winning bid (i.e., there is no further buy or not-buy decision). For fixed-price, the decision entails whether to buy it or not.

An alternative shopping format – eBay(.com) stores – lets buyers browse all the items that an individual seller is offering on his or her own customized pages.

The eBay.com trading platform has some potential limitations.

- Two thirds of other Web sites are faster than eBay.com, according to Alexa.^{ci} In 2008, eBay added the ability for partial page refreshing (such as to view current time remaining for a listing) without the need for the entire page to reload.^{ci}
- A “best match” sorting function on eBay.com aims to help buyers find items that closely fit their search terms and are offered by sellers with highly positive reputation ratings. Users have criticized this change for slowing download times and making it more difficult to find a desired item.^{ciii}
- Unlike many e-commerce sites, such as Amazon, most eBay.com listings do not have consumer product reviews integrated into the content or available via click-through access. For example, to consider child safety seats reviews from eBay.com users in choosing among eBay.com listings, a buyer would need to go to a separate section of the Web site. Some items, such as digital cameras, do have a link to online reviews of the specific model; however, eBay.com does not allow buyers to sort listings by product ratings or reviews.

My eBay(.com)

“My eBay” is the section of eBay.com in which a registered user can create a customized control panel. eBay.com encourages users to customize their My eBay page – the content, presentation, color scheme and organization – because it enables users to personalize their eBay tool. Through My eBay, users can:

- Track and manage auction and shopping activity. An at-a-glance view provides a snapshot of the user's buying and selling history. A user can watch a listing even if s/he has not yet bid. The page also helps a user compare items or save a search.
- Communicate by secure messages with eBay staff, potential buyers, sellers with listings and other users.
- Leave feedback for buyers or sellers.
- Monitor eBay announcements about the site.
- Manage the user account, including PayPal linkage and general account preferences.
- Set up automatic notifications, such as notices about new listings that correspond with saved searches.
- Create lists (such as Emma's new dorm room, Andrew's wedding) with items drawn from watching, bidding and won sections of My eBay.
- Look up the meaning of an eBay icon in a special glossary.
- Learn about workshops in the region and audio town halls with eBay staff.

In January 2009, eBay will finalize a gradual transition of users to a new version of My eBay. (As of November 2008, 90 percent of eBay.com members were using the new version.^{cliii}) Upgrades include new features and increased ability for users to customize information management, visual elements, lists of watched items and more.^{cliv}

eBay.com Marketplace Feedback System

Buyer and seller confidence in each other is fundamental to eBay.com's viability and growth. To provide a safe, reliable marketplace, eBay embedded a buyer/seller feedback system as a quality assurance mechanism that encourages the community to self regulate.^{clv} As described by eBay:

Feedback represents a person's permanent reputation as a buyer or seller on eBay. It is made up of comments and ratings left by other eBay members you bought and sold to. There are three types of feedback ratings: positive, neutral and negative. The sum of these feedback ratings [is] shown as a number in parentheses next to your User ID.^{clvi}

eBay.com buyers can view detailed feedback on sellers to aid their decision-making process about whether to make or accept a bid. (eBay.com sellers must accept the winning bid.) The feedback score – depicted numerically and with a set of colored stars – is an automated tally of each positive and negative rating. In early 2008, eBay made significant changes to the feedback system to address weaknesses.^{clvii} eBay community forums and external blogs have criticized the recent changes as creating new challenges.

eBay.com Rules and Policies

Users must register with eBay to place a bid or list an item for auction. Completing the registration process requires accepting the eBay.com user agreement, which covers compliance with its rules and policies (and all laws governing transactions). The rules and policies seek to “promote a safe trading environment,” although registrants may not study the details.^{clviii}

eBay reports enforcing eBay.com rules and policies. Violation sanctions can include account suspension, among others. As needed, eBay coordinates with law enforcement.

eBay.com Community

The eBay.com community is an integral part of the eBay.com marketplace. Community participation can begin with buyer/seller feedback. Registered users can also directly interact with each other in chat rooms, users groups, bulletin boards, customer support (i.e., Answer Center) and other forums to:

- Obtain advice from other eBay.com users.
- Discuss topics with other users and eBay staff on shared interests.
- Receive updates.
- Learn and be entertained.

Users can communicate directly with eBay staff and other users through blogs, discussion groups and direct messages. Users can also suggest new community forums.

Because the eBay.com community has extensive channels and content (such as more than 700 discussion groups), the site allows users to create a customized “eBay My World” page. Users select their preferred page layout, color scheme and content from eBay.com community features. My World is focused externally on communicating with other eBay users and providing each user with a public “face.” My World suggests users create their own blogs, product reviews, buying guides and guest books.

The annual eBay Live! gathering brings together eBay staff and community to educate and inspire. Offerings include social events, education and training sessions, town hall style meetings with eBay executives, an exposition and book-signings with eBay experts.^{clix} In 2006, the gathering in Las Vegas attracted 15,000 registrants.^{clx} The eBay.com community can also attend other regional events, some of which eBay sponsors.

It appears that community aspects have both functional and social benefits.

- Foster social norms of acting honestly and responsibly. The virtual community, including the buyer/seller feedback system promotes self-regulation. Other eBay.com norms include treating others in the community with respect.
- Promote a sense of belonging or other emotional ties, including online friendships and brand loyalty, that help make the eBay.com experience fun and meaningful. Such positive associations, in turn, may generate repeat or expand users' trading.
- Increase time spent on eBay.com, deepening user engagement.
- Learn informally about how to use the site to their advantage or receive assistance from peers in solving a problem. As they learn, members become more active; they may also become less guarded and more willing to bid or buy.^{clxi, clxii, clxiii, clxiv, clxv, clxvi}

Adjunct Services

To support buyers and sellers, eBay.com has a wide range of features and services. Figure 3 highlights some of eBay's many adjunct services that may help eBay.com maintain its user base as well as promote additional trading activity.

Figure 3. Selected eBay.com Adjunct Supports

Adjunct Supports for eBay.com	Key Features
Customer Support	<ul style="list-style-type: none"> • Use automated assistance such as community help boards • Obtain personal assistance from eBay staff through live online help or e-mail; telephone is available in some instances
eBay Learning and eBay University	<ul style="list-style-type: none"> • Learn how to use eBay.com through videos, tutorials and more • Find a class or training session nearby
eBay Security and Resolution Center	<ul style="list-style-type: none"> • Report a problem • Learn strategies to avoid or resolve problems
eBay.com Help	<ul style="list-style-type: none"> • Find answers to questions • Use a troubleshooting guide on almost any issue
eBay.com Toolbar	<ul style="list-style-type: none"> • Monitor auctions even when users are not on eBay.com
PayPal ¹	<ul style="list-style-type: none"> • Enable buyers to pay sellers in an easy, convenient, fast and secure way • Protect buyers if their transactions are with sellers who have highly positive feedback ratings
Reviews and Guides	<ul style="list-style-type: none"> • Read reviews in which eBay.com users describe and provide opinions on goods such as a specific camera model or a new book • Obtain guides, in which eBay.com users discuss various topics, such as how to do something; some are buying guides for a product category. <p>(Non-registered users can access both reviews and guides.)</p>

Updating

Content on eBay.com is constantly changing. Sellers add listings, auctions progress or end, and buyers and sellers rate each other. Members answer other users' questions, and eBay uploads multi-media to communicate with its audiences (such as registered users, non-registered visitors, investors, journalists and more).

¹ PayPal is a separate business unit for eBay, but in the eBay.com marketplace, it provides a specific function that supports buyers and sellers.

In terms of the platform itself, the company tactic has been to incrementally change eBay.com. For example, the eBay.com community has gained new communications forums such as blogs, and as mobile phones became more common, eBay provided new auction notification services.^{clxvii}

In 2007, eBay did a comprehensive, formal review of eBay.com to identify ways to enhance the user experience, especially for buyers. The review addressed safety, trust, pricing, speed, reliability and convenience.^{clxviii} Subsequent changes include:

- Streamlining the shopping experience for buyers to make it fast, easy and reliable.
- Adjusting seller fees and incentives to expand supply.
- Altering the feedback system between buyers and sellers.
- Refining the eBay.com homepage.
- Improving search functions so users can quickly find what they want.
- Expanding customer support.
- Tailoring the user experience by category (so that shopping for a blender on eBay.com is different than shopping for tickets).^{clxix}
- Updating the site's merchandise categories - and the underlying database - based on trends in trading activity as well as input from eBay.com community and field experts.^{clxx}

eBay also alters user rules and policies, which change seller and buyer experiences on eBay.com. A few examples include:

- Recent changes in the eBay.com feedback system such that sellers cannot leave negative feedback about buyers.
- Creation of "buy it now."
- Restructuring seller fees.
- Policies promoting use of PayPal as the payment intermediary between buyers and sellers.
- (See also Use of Data section.)

Marketing, Promotion and Dissemination

Growing the eBay.com community and leveraging it to expand trading – both supply and demand – continue to be a strategic elements of the marketing plan.^{clxxi}

Positioning

eBay has sought to position eBay.com in consumers' minds as the go-to shopping site for practically anything under the sun – a bar of soap, a new cell phone, a movie DVD or an antique lunchbox for their collection. In addition to an amazing array of offerings, eBay's positioning emphasizes bargains, fun and a unique, better way to shop. Sample messages include:

- eBay.com as “the place to find great deals on practically anything.”^{clxxii}
 - “The World’s Online Marketplace” where “anyone [can] trade practically anything almost anywhere in the world.”^{clxxiii}
 - E-mails to users, saying “Whoa! Zero bids!” on popular electronics auctions without any bids.
 - “The power of all of us” as a tagline.
 - Television commercials with actors singing modified versions of classic well-known songs:
 - “Through auctions or without delay, you can do it eBay” (to the tune of “I’ll Do It My Way”), promoting the buy-it-now option.
 - “eBay is so very easy, put a few bucks down and your cash goes far” (to the tune of “Do You Know the Way to San Jose”).
 - “Millions of people do eBay.”
- (See also Promotion for other campaign messages.)

Pricing

Registering as an eBay.com user is free. Buyers can bid on listed items without paying any direct fees to eBay. Items may be available at the:

- Market price, which is set by the auction; winning bidders usually pay shipping fees.
- Price set by the seller plus the seller’s shipping fee, if any.

Placement

eBay.com offers 24/7/365 online access to shopping and trading, customer support and eBay.com community. To drive traffic to eBay.com, the company has strategic advertising partnerships, particularly with click-through advertising on Web sites with high visitation rates. It also uses search-engine optimization techniques to attract shoppers who use a search engine in their information-seeking process.

Also, eBay Live Auctions lets online bidders connect with a traditional auction.

Promotion

Since its start and into the present, the company has promoted eBay.com through Internet marketing but mostly by relying on word-of-mouth.^{clxxiv} Other communication channels used by eBay include, but are not limited to:

- Sponsored advertising on search engines.
- Portal advertising on mobile and wireless handheld devices.
- E-mail campaigns.
- Linkages through strategic partnerships and paid advertising on other Web sites.^{clxxv} (Currently, more than 16,000 other Web sites link to eBay.com.^{clxxvi}) eBay is working to grow eBay.com visibility among teens and young adults by entering deals with Bebo, Facebook and MySpace, sites that are popular with younger adults.
- Targeted print advertising for eBay.com, which started in 2000 or 2001 to attract a broad base of consumers to eBay.^{clxxvii}
- eBay.com television campaigns such as “Do it eBay” (2002) and “The Power of All of Us” (2004).^{clxxviii, clxxix} Advertising campaigns on national network and cable television helped eBay.com regain its position as the top e-commerce site.^{clxxx}

Internally, eBay has several channels to communicate directly with the eBay.com community. (See also the Tool Design section for a description of the eBay.com community.)

- eBay(.com) radio is a syndicated program available on live Internet feed, in archived podcasts and traditional radio broadcasts. Hosted by eBay’s own folksy celebrity, Jim Griffith, the talk show features expert guests, news direct from eBay and calls from listeners.^{clxxxi} Users can also subscribe to the eBay.com radio newsletter. The radio sells advertising spots and promotes fee-based eBay.com services.
- eBay town hall is a live online community forum during which eBay.com users can ask questions related to eBay.com and receive answers from eBay’s leadership team.^{clxxxii}

- E-mails from eBay to registered users suggest current listings and remind them they can find “serious deals on eBay.com.”

Some recent promotions include the following.

- To incentivize new listings, eBay sometimes reduces insertion fees for a limited time.^{clxxxiii} In August 2008, eBay announced a set of seller fee changes intended to increase listings by reducing insertion fees with offsetting changes to final-value fees.^{clxxxiv}
- eBay’s recognized “top buyers” receive special coupon initiatives.^{clxxxv}
- In the 2008 holiday season, eBay.com:
 - Offered coupons to buyers, perhaps because market research indicated a 30 percent increase in e-commerce site traffic related to coupon promotions.^{clxxxvi}
 - Created a gift finder tool that enabled users to shop by gender and age, with results displayed as small pictures of listing themes (such as jewelry, sporting goods, music). Shoppers could select multiple themes and drill down into additional listings.
 - Added a green “deals” button on every eBay.com page (including help pages) with ads for popular items under headings of inside deals, daily deal, free shipping and best offer.

Testing and Evaluation

To stay competitive, eBay relies on many data sources to inform changes intended to improve eBay.com, with the ultimate goal of increasing revenues.

Data Sources and Measures

eBay managers monitor a variety of operating metrics for eBay.com. The below measures track eBay.com marketplace growth, which ultimately affects revenues.

- Registered and active users
- Listings
- Trading activity
- Gross merchandise volume

eBay also tracks business profitability with these metrics.

- Net revenues and sources (such as seller fees, PayPal fees, advertising revenue)

- Operating margins
- Earnings per share
- Cash flows
- Non-cash metrics

Web analytics provide insights on speed, navigation, visits, time spent on eBay.com and in which sections, and more. eBay's analysts review all of the above data sets, including their many subsets, for growth and other trends. Net ratings from Nielsen or other sources enable eBay to compare performance against competitors.

In October 2008, eBay fielded an online survey of users asking about level of trust in sellers, concerns about the security of personal information, ease of finding and buying items and feelings about using seller reputation system. It also queried about types of activities on eBay.com and what other e-commerce sites have been used.

Additional qualitative data come through regular interaction between eBay staff and eBay.com users – through blogs, discussion forums, audio town halls, radio call-in programs and more.

Examples:

- Certain eBay.com sections (such as the help section) solicit two types of optional visitor responses. A yes/no question asks, "Was this page helpful?" An open-ended question asks, "How can we improve this page?"
- Users post comments in eBay.com community forums, during eBay town halls and through the buyer/seller feedback system.
- Announcements of pending changes invite readers to comment.
- eBay.com visitors can go to the Sneak Peak page to learn about upcoming changes, try out betas and provide comments or ideas.^{clxxxvii}

This tradition of seeking ideas and guidance from the eBay.com community, treating them in some ways as owners, extends back to eBay's earliest days.^{clxxxviii, clxxxix} Pilots help eBay to identify needed improvements or compare how alternatives affect trading performance.

As described by eBay's senior manager of community, Mary Lou Song, in a 2001 interview for *Internet World*:

...everything we do goes through a community filter. What you see now is the result of a coordinated effort between the company and the user community. It is a process we follow

every day. If there is a problem that we need to fix, we go through it together, creating these feedback loops that people can participate in before we ever hard-code anything in.^{cxv}

Use of Data

eBay uses eBay.com community and buyer/seller feedback data, along with other information such as competitor monitoring, with a goal of maintaining eBay.com as a leading e-commerce site that meets buyers' expectations and attracts successful sellers.

After making a change to the site or trading structure, eBay tracks the impact. For example, after noticing abusive practices in the feedback system, eBay made significant changes in May 2008. In July, eBay made two refinements based on close monitoring of buyer and seller use of the modified feedback system.^{cxci} If possible, eBay works quickly to fix unintended snafus, as when a software bug created problems with a new way to sort listings.^{cxcii} (See also the Updating section.)

Prior to making a major change, such as is scheduled for January 2009 when the new "My eBay" section will replace the current version, an eBay team will create a beta version, test it internally, ask eBay.com users to test the beta and solicit other user input and suggestions. The team will fix problems and make adjustments before transforming that part of eBay.com. The team also communicates with the eBay.com community so users:

- Are aware of the upcoming modification.
- Have guidance available to aid their adjustment to the new environment.^{cxci}

Impact on Consumer Behaviors

eBay.com helped e-commerce gain footing by engaging consumers in trying online retail and having positive experiences when they did. The converse may have occurred: when Americans had positive experiences buying from other e-commerce sites, they may have perceived less risk in trying eBay.com.^{cxv}

In this context – that eBay has contributed to and benefited from changes in Americans' online shopping habits, the following are some select data on the growth of e-commerce.

- In 1998, about 9 million Americans had bought something on the Internet; of these Internet buyers, 35 percent had made a purchase through an online auction, according to Forrester Research data.^{cxv}

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- The Pew Internet and American Life Project reports that the number of Americans who have ever bought anything online has more than doubled since 2000, from 22 percent in June 2000 to 49 percent in September 2007. Among Americans with Internet access, 66 percent have made an online purchase.^{cxcvi}
 - Nearly all U.S. Internet users (94 percent) shop online, and global Internet shopping increased 40 percent between 2005 and 2007, according to a late 2007 Nielsen Global Online Survey. Globally, more than half of Internet users have made at least one purchase online in the past month.^{cxcvii}
 - The Internet greatly reduced the time and cost to research purchases. Today, consumers want better information about the products they buy.^{cxcviii} According to Pew data, Internet use for product-related research is rising. Some 60 percent of all Americans report using the Internet for product-related research in September 2007, up from 35 percent who had done this in June 2000.^{cxcix}

According to Clemons, eBay.com's primary effect on consumer behavior is users' practice of discounting bids because of low trust that the listing is accurate, the item is authentic and the seller is reliable. Over time, lowered expectations and willingness-to-pay have driven away honest sellers who can get better prices on other e-commerce sites. eBay.com now has less reputable sellers who offer banned, stolen or other fraudulent goods. This phenomenon is characteristic of Gresham's Law that "bad money drives out good."^{cc}

Prior sections of this report have provided overviews of research on consumer behavior on eBay.com, such as in the Decision Four and the Constraints sections.

Impact on e-Commerce

For many years, eBay dominated and set the standard for e-commerce. To put its rise into context, marketing scholar Gregory Black (2007) describes eBay as growing faster in terms of revenue than Microsoft, Dell and Wal-Mart.^{cci}

In 2003, *Business Week's* Silicon Valley bureau chief, Robert Hof, wrote that eBay "is not just a wildly successful startup. It has invented a whole new business world." He quotes W. Brian Arthur, a Santa Fe Institute economist, as claiming eBay is "opening up a whole new medium of exchange."^{ccii} (See also Impact on Consumer Behaviors.)

The final sections provide crosscutting insights from eBay's former CEO as well as from outside experts.

Observations by Insiders

In a 2001 interview with *Business Week*, Whitman talked about the foundations of eBay's success: "It was a business model and a concept uniquely suited to the Web and took advantage of the characteristics of the Web. The second thing is that it really is the first community commerce model."^{cciii}

Observations by Outsiders

- As described by Tim O'Reilly (2005), an online media sage:

...eBay's product is the collective activity of all its users; like the web itself, eBay grows organically in response to user activity, and the company's role is as an enabler of content in which that user activity can happen. What's more, eBay's competitive advantage comes almost entirely from the critical mass of buyers and sellers, which makes any new entrant offering similar services significantly less attractive.^{cciv}
- Information systems and psychology experts Steven Walczak, Dawn Gregg and Joy Berrenberg (2006) examined factors affecting sellers' choice of online auction platforms. They note that "As a first mover, eBay has gained an advantage in name recognition and continues to pursue this advantage through advertising, capitalizing on the reputation factors of online auction channel selection."^{ccv}
- In their framework for customer engagement in building loyalty to a site brand, Holland and Baker (2001) report that "[I]n the new age of interactive communication, producers and customers are co-creating the e-business brand."^{ccvi} They also describe eBay.com as succeeding because of its online community, which aided the development of trust and fostered customer loyalty to eBay.com.

Companies must understand the usage orientations and other individual factors that motivate customers to join these groups, and determine the types of benefits they will obtain. Websites that understand the customer's online experience will be best equipped to provide customers with what they need to make participation valuable, and thus increase site loyalty.^{ccvii}
- Attorney Bob Rietjens, writing in the journal *Information & Communications Technology Law* (2006), commented on the strengths and limits of eBay.com's feedback system:

Establishing sufficient trust is essential for e-Commerce to live up to its potential. eBay's reputation system has proven effective in establishing trust among its members. The question is whether the established trust is justified.... it is important to realise that reputation systems alone will never ban all fraud.... However, in combination with other safety features, advanced reputation systems may be an important step towards a safer trading environment.^{ccviii}

Appendix A.

Key Informants

The perspectives in this case study have been synthesized from the wide-ranging comments of the people interviewed, the literature and other data sources. They do not necessarily represent the views of the Center for Advancing Health.

With gratitude, CFAH acknowledges the following individuals who participated in key informant interviews.

- Eric K. Clemons, PhD, Professor of Operations and Information Management, Wharton School, University of Pennsylvania.
- Utpal (Paul) M. Dholakia, PhD, Associate Professor of Management, Jesse H. Jones Graduate School of Management, Rice University.
- John B. Horrigan, PhD, Associate Director of Research, Pew Internet & American Life Project.
- Greg Kusch, eBay Powerseller and eBay-certified trainer
- eBay provided very limited responses to inquiries for information and perspectives to inform this case study.

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