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The Empirical Research about the Impact of Seller Reputation on C2C Online Trading: The Case of Taobao

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Abstract: With the improvement of China's Internet penetration and a shift in consumption consciousness, user scale and market size of online trading reached a new height, and C2C e-commerce has the most rapid development. As the seller and buyer of online transaction in a state of isolation in time and space, there is serious information asymmetry. So the reputation problems that exist in the online trading have become the concern of many people. The seller reputation can evaluate the past behavior of seller. Hence, the higher reputation can reduce the potential risk of the transaction and increase the transaction tendencies and actions of buyers. Due to the biggest market share of the C2C e-commerce platform in China and a higher awareness of user groups, Taobao.com is selected as research subject. We collected 1379 useful seller reputation information from five merchandise categories. Then, hypotheses about the influence of online sales volume and price were put forward, and the research model was established. Next, correlation analysis and linear regression analysis was employed to test hypotheses and the research model in the C2C online trading environment. The results showed that reputation rating and reputation score has a significant positive effect on sales volume and price, and there is a negative impact on the sales of the existence of violation. Match degree of description, seller attitude and delivery speed in the dynamic rating have a greater impact on sales price than volume. Match degree of description and delivery speed has a promoting role. Freight borne by the seller has a positive impact on sales volume.

Keywords: e-commerce, seller reputation, online trading, empirical study

1. INTRODUCTION

With the rapid development of modern telecommunications technology, the Internet provides an easy and effective way to deliver electronic commerce services to millions of users ^[1]. Unlike the traditional offline market, in which seller and buyer usually conduct transactions face to face, an online buyer can execute a transaction without actually meeting the seller. As the parties to the transaction in time and space in a state of isolation, there is serious information asymmetry. To reduce such distrust, seller reputation systems in the form of reputation scores, reputation ratings, and dynamic evaluation et al, have been developed in many online shopping marketplaces.

In China, technology infrastructure development in recent years has helped Internet growth. According to the 31st Statistical Survey Report on the Internet Development in China, Internet users in China have reached 564 million by the end of 2012, including online shopping users 242 million. And online shopping usage rate increased to 42.9%^[2]. In the development trend of online shopping, C2C e-commerce growth has slowed down, but still occupy the dominant position. With the gradual improvement of third-party payment platform and reputation evaluation system, C2C e-commerce get a lot of consumers because of its more flexibility and freedom shopping patterns. The largest online C2C market in China is Taobao, which accounts for 94.5%. The rest are Paipai and TOM-eBay, with market shares of 5.3% and 0.2% respectively.

The primary benefits offered by online transactions include convenience, lower prices, and lower search cost ^[3]. However, these are offset by costs associated with risk and loss of privacy. In particular, the economic

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risk arising from potential monetary loss could be significant. The impersonal and anonymous nature of online marketplaces has further increased the importance of trust [4]. Trust building in online trading is important for sellers [5]. In the traditional marketplace, sellers build good reputation through customer word of mouth and branding. On the Internet, e-commerce websites collect and publish consumer reviews and ratings of online sellers. Such reviews and ratings may be viewed as measures of seller reputation because they reflect the collective opinions of consumers towards the seller [6]. In order to reduce the risk and make C2C transactions more credible, seller reputation system has been constructed in various online markets. Take Taobao for example, after the end of each transaction, both sellers and buyers are required to give feedbacks to each other. This raises the question: What affect online sales volume and price in seller reputation system? How do they affect?

In this study, we examine the relationship between seller reputation and online trading in the context of C2C e-commerce, mainly for sales volume and price. The seller reputation system which provided by taobao.com were used as proxies. In addition, the effects of product category and after-sales service on seller reputation are also considered. The remainder of the paper is organized as follows. Section 2 briefly reviews trust and reputation systems and the relationships between reputation and online transactions. Section 3 introduces a research model that examines the effects of seller reputation on two factors - sales volume and price - in online transactions. In Sections 4, the research method and results of hypothesis tests are presented in detail. Section 5 concludes the paper and provides suggestions for future research directions.

2. LITERATURE REVIEW

The seller reputation system has attracted researchers to test the relationships and effects between seller trust, seller reputation and online trading.

In order to explain the origin, transference, and effects of trust, many theories including balance theory, social network theory [7], exchange theory, institution-based trust theory [8], and planned behavior theory have been presented. Trust is defined as the buyer's belief that a transaction with a seller will occur in a manner consistent with her confident expectations [5]. Trust is a catalyst in many buyer-seller transactions, and it can provide buyers with high expectations of satisfying exchange relationships [9]. Seller trust has a significant importance in online trading, which may encourage buyers to participate in transaction [4]. Seller trust is based on a source of seller reputation. Seller reputation helps forming buyers' perceived trust on seller, and thus influences the sales volume and price. Reputation is the history records of a seller's behavior, and in online trading market, it is visibly showed as numerical value [10]. Reputation systems support the two major antecedents for trust in consumer electronic shopping: trust in the Internet merchant and trust in the Internet shopping medium as a whole. Reputation systems are currently used across the Internet in comparison shopping sites and in online C2C marketplaces.

Some research interest in online reputation systems has been proliferating, with a focus on four aspects: (1) how seller reputation influences the formation of trust on consumers' side [5, 11]; (2) the impact of reputation scores on transactional price [12,13,14]; (3) the effect of reputation-related factors on online trading sales volume [15,16]; (4) the performance of existing online seller reputation systems [17, 18]; (5) the factors affecting seller's reputation [19, 20]. These research efforts have an emphasis on the effects of the reputation system that are used at the individual trader level.

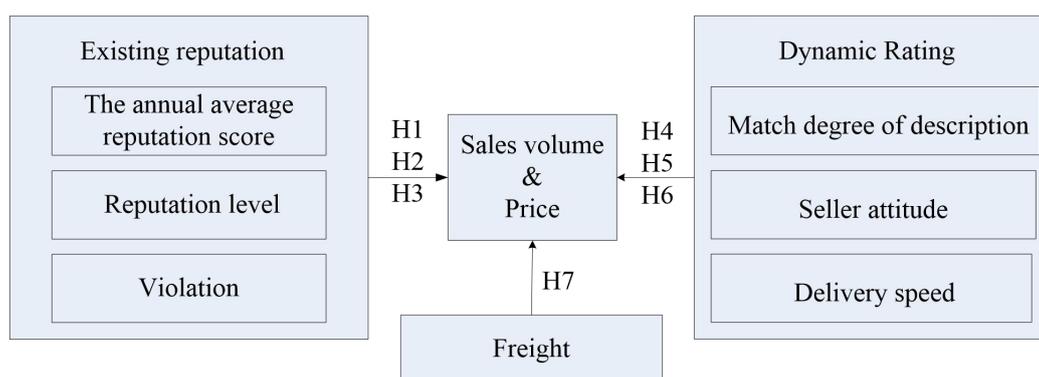
A number of works have empirically studied the impact of reputation on online auction price. Most studies choose eBay as their data source, for it is one of the most successful marketplace in the world, with over 90% of the online auction market share and a huge amount of everyday transactions.

Table 1. Variables in relative literatures

Dependent Variables	Literatures
Sales volume	[15] [16] [27] [28] [29] [30]
Price	[5] [15] [21] [22] [23] [24] [25] [26] [27] [28] [29]
Independent Variables	Literatures
Overall reputation scores	[15] [26] [27] [28] [30]
Positive/Neutral/Negative feedback	[5] [16] [21] [22] [23] [24] [25] [26] [27] [28] [29] [30]
Control Variables	Literatures
Freight	[15] [21] [22]
Insurance	[29] [30]
Alliance	[27] [29]

3. RESEARCH MODEL AND HYPOTHESES

This research examines the relationship between the seller reputation and online trading. As depicted in Figure 1, we propose that the online sales volume and price are influenced by online seller reputation. The seller reputation is composed by existing reputation, dynamic rating and freight.

**Figure 1. The research model**

3.1 Existing reputation

The reputation system of Taobao comprises three parts, existing reputation, dynamic rating and others variables. Same as eBay, the buyer and seller each has the opportunity to assess each other's performance with a 1(positive), or a 0(neutral), or a -1(negative). Existing reputation score cumulates the frequency of feedback after each transaction ends, including within one week, one month and six months. Existing reputation score is divided by positive feedback, neutral feedback and negative feedback. Furthermore, the existing reputation score is equal to the count of positive feedback minus the count of negative feedback. Because a user could be both of a buyer and a seller on the system, we only consider the net seller reputation score given by buyers.

Many research findings show that the total reputation score has a positive effect on online transactions. The higher reputation score owed by a seller, the more likely to achieve higher sales volume and price. First, the total reputation score reflects a seller's overall reputation situation. Compared to other reference data, the total reputation score is more intuitive and simple, with a high degree of generality. Second, the seller reputation rating is often the primary reference data that catches buyers' eye.

A number of works have empirically studied the impact of reputation on price. Seller reputation has a positive impact on final price in online auction [15, 21, 22, 31]. Also, Seller reputation has a significant positive

impact on consumer choice behavior ^[32]. Meanwhile, there are different results. Some found seller reputation has no significant or negative impact on the sales price ^[26, 33]. Many researchers found that sales volume and seller reputation has a strong correlation ^[28, 30].

H1: Seller reputation score has a positive impact on online sales (a) volume and (b) price.

H2: Seller reputation rating has a positive impact on online sales (a) volume and (b) price.

C2C e-commerce platform not only provides a reputation evaluation system, but also provides buyers with sellers' violation situation, which enhance the transparency of the seller reputation information, effectively reduce the buyers' risk perception in online transaction. According violation mechanism developed by Taobao, buyers can quickly and easily find the total number of penalties and complaints nearly 30days in seller's feedback page. For sellers, the illegal operations will be recorded and give buyers a very negative impression, thus reduce their desire to buy. In other words, only by improving the quality of products and service, the risk of online shopping can be reduced.

H3: The existence of violation in seller reputation has a negative impact on online sales (a) volume and (b) price.

3.2 Dynamic rating

Our study focuses on the market level to reveal the holistic dynamics of the C2C market. Taobao provide a platform of real-time dynamic score for buyers and sellers. After each successful transaction, the buyer can evaluate the match degree of product description, sell attitude and delivery speed. Evaluate criteria of dynamic rating is Likert metrics.

The match degree of product description means that seller should explain the basic properties, fineness and blemishes of goods truly and completely. Seller should ensure that their goods can be normally used within a reasonable period. All sellers bear the responsibility to ensure the quality of goods that they sold, which is the basic obligation of the seller. Therefore, the higher score in this item, the smaller risk faced by consumers, which will stimulate the consumer purchase desire. Meanwhile, in order to obtain greater benefits, seller will increase the commodity prices appropriately

H4: The match degree of goods description has a positive impact on online sales (a) volume and (b) price.

The seller service attitude rating is the most direct expression of seller service, this item is sufficient to show that whether buyers got seller's attention and respect in the shopping process. In the case of goods quality is no problem, the buyer will usually choose a good service attitude seller, they even willing to pay a higher price for these products and services. The seller with good service attitude obtain greater benefits, but has a higher service costs, such as hiring a full-time customer service staff, opened a 24-hour hotline and so on. The quality of service effectively reduced the perceived risk of consumers, so as to create more loyalty consumers^[34].

H5: The seller service attitude has a positive impact on online sales (a) volume and (b) price.

The e-commerce seller's delivery speed is an important indicator of the quality of services ^[35]. Delivery speed is not equal to the speed of logistics and distribution, but the time from buyer make a payment by the third-party trading platform to seller deliver goods. It also reflects the quality of buyers from the side of service. From the buyer's perspective, the ability to get goods as soon as possible is significant impact on the shopping experience. From the seller's point of view, the faster deliver goods, the higher investment in operating costs. So, the fast delivery speed may bring high price.

H6: The seller delivery speed has a positive impact on online sales (a) volume and (b) price.

3.3 Freight

For the physical commodities that trading in C2C online marketplace, freight is unavoidable commitment

problem. Many sellers attract buyers through commit to bear the expense of freightage, but it also virtually increased their selling cost. In order to ensure their revenue, the seller is bound to increase the sales price of their goods. And a considerable part of buyers will choose the shipping sellers in the process of searching goods. Out of this mentality, the sellers who bear the freight will get higher sales volume.

H7: The seller bear the freight has a positive impact on online sales (a) volume and (b) price.

4. RESEARCH METHODOLOGY AND RESULTS

In most markets, reputation is difficult to quantify. Researchers must be able to quantify reputation in order to use regression models that demonstrate the impact of a seller's reputation on sales volume and price.

4.1 Data collection

To test the hypotheses, we collected seller reputation and product pricing information from taobao.com, a C2C online trading platform that allows consumers to search for products offered by various sellers. We collect five types of commodities data, including search type (Kingston 4 g memory chips), experience type I (Shiseido liquid face wash), experience type II (iphone 5), trust type (Karicare infant milk powder) and digital type (50QB)^[36]. In order to select a larger data to ensure the accuracy and reliability of the results, we try to select a high degree of standardization and small difference sellers.

Data collection focused on one week in March 2013, a total of 3730 data collected. Because Taobao has established a B2C marketplace of Taobao Mall, we need to remove such seller information to ensure the rigor of the study. Meanwhile, we only retained the seller information that they have trade data in the last month. In the data capture process, we endeavor to ensure data integrity. Ultimately retained the valid data 1379, which search type 186, experience type I 291, experience type II 292, trust type 285 and digital type 326, as the research sample of this article. Variables used in this study are labeled and defined in Table 2 and the summary statistics are given in Table 3.

Table 2. Variables definitions

Variable	Definition
Volume	The sales volume of seller
Price	The final sales price of seller
RRating	The reputation rating of seller that displayed on the front page
YReputation	The annual average reputation score
Violation	The number of seller's illegal operations
Description	The match degree of goods description
Service	The seller service attitude score
Delivery	The seller delivery speed score
Freight	Dummy variable indicating whether the seller bear the freight (Reserve = 1) or not (Reserve= 0)

As can be seen from Table 3, there are several notable differences among the five commodity types. First, experience type I merchandise seller reputation are generally high and the difference is small. Second, the highest scores in dynamic rating is digital type merchandise seller, which is due to such good as virtual goods and have no after-sale service.

Table 3. Summary statistics (N=1379)

Variable		search type	experience type I	experience type II	trust type	digital type
Volume	Mean	35.49	295.40	123.47	137.90	756.82
	SD	101.358	1569.270	464.269	294.208	3019.218
Price	Mean	182.58	30.62	4345.0276	225.5781	46.2429
	SD	15.588	5.1204	277.5398	20.7726	.72053
RRating	Mean	9.57	13.73	10.36	9.43	9.30
	SD	2.463	1.937	2.630	2.922	3.946
YReputation	Mean	3049.5085	46132.37	3774.4221	4369.9958	30323.04
	SD	5301.0529	97624.534	13547.604	8546.1624	123177.21
Violation	Mean	.18	.34	.44	.15	.12
	SD	.386	.499	.497	.362	.323
Description	Mean	4.871252	4.868583	4.907609	4.918641	4.931870
	SD	.0635491	.0296252	.0662545	.0574864	.0511905
Service	Mean	4.907054	4.891773	4.873916	4.920355	4.922149
	SD	.0594646	.0278686	.0706046	.0591889	.0544124
Delivery	Mean	4.878873	4.887270	4.907533	4.912995	4.927201
	SD	.0698117	.0312847	.0666811	.0659876	.0525291
Freight	Mean	.04	.23	.49	.15	1.00
	SD	.202	.421	.501	.358	.000

4.2 Regression model

Based on the hypotheses developed in previous section, the following generalized regression models can be stated:

Model 1- sales volume

$$\ln(\text{volume}) = \beta_0 + \beta_1 \ln(\text{price}) + \beta_2 \text{RRating} + \beta_3 \ln(\text{YReputation}) + \beta_4 \text{Violation} + \beta_5 \text{Description} + \beta_6 \text{Service} + \beta_7 \text{Delivery} + \beta_8 \text{Freight} + \varepsilon$$

Model 2- sales price

$$\ln(\text{price}) = \beta_0 + \beta_1 \ln(\text{volume}) + \beta_2 \text{RRating} + \beta_3 \ln(\text{YReputation}) + \beta_4 \text{Violation} + \beta_5 \text{Description} + \beta_6 \text{Service} + \beta_7 \text{Delivery} + \beta_8 \text{Freight} + \varepsilon$$

4.3 Results

The regression results using data from Taobao show that a strong correlation between reputation scores and reputation rating. The regression results for the two models using different data sources show significantly different results. The results are given in Table 4.

The regression results show that the regression coefficients of $\ln(\text{price})$ and $\ln(\text{volume})$ are negative, this is due to the substitution effect and the income effect. The demand decreases with the increase in price, so there is a negative correlation between sales volume and price.

In all models, the regression coefficients of the RRating and $\ln(\text{YReputation})$ are positive and significant, the results support H1a, H1b, H2a and H2b. The seller with violation has a low sales volume, consistent with the H3a, but the seller will not reduce the sales price because of the violation, do not support H3b. In dynamic rating,

the regression coefficient of the match degree of goods description and the deliver speed score are positive, that provide support for H4a, H4b, H6a and H6b. Due to the virtual and invisibility of network, overly enthusiastic seller will increase the buyer's prevent mental. This explains the reason why not support H5a and H5b. In model 1.1 and 1.2, the regression coefficient of freight is positive and significant, which consistent with the H7a. However, in model 2.1 and 2.2, the regression coefficient is negative, which does not support H7b. This may due to the combined data contains the digital type products that not require distribution. Excluding such type data, the regression coefficients of this index are 1.078 and 1.057, consistent with the assumptions H8b of this article.

Regression results show that R-squared values are relatively low (0.180-0.305), but this data is much higher than the related research [18,21]. The introduction of Ln(YReputation) in the regression models fit the model better than RRating.

Table 4. Regression results for Model-1 and Model-2 from Taobao

Variables	Model 1.1	Model 1.2	Model 2.1	Model 2.2
Ln(volume)			-.276*	-.219*
Ln(price)	-.176*	-.139*		
RRating	.176*		.118*	
Ln(YReputation)		.300*		.256*
Violation	-.093	-.097	.459*	.476*
Description	7.372*	6.999*	14.187*	13.605*
Service	-7.055*	-6.756*	-15.867*	-15.407*
Delivery	.654	.748	2.233	2.068
Freight	.930*	.866*	-.171*	-.163*
C	-1.706	-2.450	4.773	6.609
R Square	.282	.305	.180	.208
Adjusted R-squared	.277	.300	.174	.203

N=1379, ***: $p < 0.01$; **: $p < 0.05$; *: $p < 0.1$.

5. CONCLUSION AND FUTURE RESEARCH

5.1 Conclusion

The majority of prior studies focus on the relationship between reputation and price, based on data from eBay. Our paper studies the impact of reputation on sales volume and price, given that most of transactions are completed at a fixed price on Taobao in China. Through the study of literature review, combined with the current situation of China's C2C e-commerce online trading, we proposed the research model that the seller reputation affects online trading and seven hypotheses. Using the seller reputation data from five category goods on Taobao, we examined the proposed hypotheses by the method of empirical research and verified the research model by using correlation and regression analysis.

Studies have found that the seller reputation score and reputation rating has a significant positive effect on the sales volume and price, and the existence of violation has a negative impact on the sales volume. Match degree of description, seller attitude and delivery speed in the dynamic evaluation have greater impact on sales price than sales volume. Match degree of description and delivery speed has a promoting role. Freight borne by the seller has a positive impact on sales volume.

The fact that most hypotheses are fully or at least partially supported indicates that the seller reputation is important determinant of online trading. In this sense, this study not only confirms the findings of previous

research, but also extends and generalizes their results on the relationship between seller reputation and online trading. This study also extends theoretical and empirical inferences of the effects of seller reputation to C2C e-commerce online transaction.

5.2 Future research

Although this study intends to provide insight into the seller reputation affects online trading in the context of C2C electronic commerce, it is not without limitations. First, only five goods categories were included in the study. Further research could address this limitation by collecting sales volume and price information from multiple product categories. Second, we only collected data from a single C2C e-commerce website. In addition, there are other websites such as Paipai and eBay, which have their own advantages, but also very worthy of study. Third, since the research model is still in the exploratory stage, in future studies, some other factors, such as refund rate, may also play a role in shaping seller reputation, but are not the deciding factor yet. Finally, additional studies are needed related to factors affecting online trust as well as strategies for improving trustworthiness.

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