

# Ebay: A good reputation pays off

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A good reputation at Ebay is worth its weight in gold: whoever was given an overwhelmingly positive assessment by their customers at previous auctions on average achieves noticeably higher returns. This is what researchers from the University of Bonn and the University of Aachen (Germany) have discovered.

To this end they analysed more than 300 auctions of popular DVDs over the past year. At the same time they scotched a widespread belief among Ebay users, viz. that auctions with evening deadlines result in particularly high prices – in fact, the opposite is the case.

What a good reputation at Ebay means in cash terms can be pinpointed precisely by Oliver Gürtler from the University of Bonn and his Aachen colleague Christian Grund: their study shows that one percentage point more in positive customer votes pushes the auction price up on average by four per cent. 'And this happens although we are dealing with relatively small sums in the transactions we investigated,' says Oliver Gürtler. 'With more expensive products a good reputation should be even more rewarding.'

Last November and December the two economics experts scrutinised a total of 313 DVD sales on Ebay, restricting their focus to six popular films – from 'Madagascar' to 'Star Wars' and 'War of the Worlds'. Auctions on Ebay end after a period which the owners of the products are free to fix themselves. Whoever makes the highest bid up to this deadline gets the product. The successful bidder can also assess the person selling the product positively, negatively or in a neutral way – an

option which many Ebay customers make use of. If, for example, the product sold is faulty, the purchaser can get their own back by giving it a bad mark.

As soon as potential customers wish to join the auction, they are automatically informed of the vendor's 'reputation'. For this purpose Ebay generates two figures. The first one is calculated on the basis of positive customer feedback minus the number of negative votes. The second figure, however, shows the percentage share of positive assessments. An example of what it looks like on the webpage is: 'Assessment points: 1433 | 99.7% positive'. 'In our study the absolute figure has no effect on the result of the auction,' Christian Grund stresses. The percentage, however, does: 'There is a clear correlation between the percentage and a higher return in the auction.'

## **The early bird catches fatter worms**

It seems logical that a good assessment can pay off with something as anonymous as the Internet – even if up to now it had hardly been possible to confirm this link scientifically. Yet in one point the findings of the two researchers did not confirm widely held views: a popular rule among Ebay auctioneers says that, wherever possible, auctions should end in the evenings, because many potential buyers start their virtual shopping spree after work. They prefer to join in auctions which are nearing their deadline, as this minimises the risk of being outbid. Thus the demand for auctions whose deadlines have almost elapsed rises in the evenings.

Yet more demand does not necessarily mean more profit – on the contrary: 'Our study shows that the returns in the evenings are even lower than normal,' says Oliver Gürtler. One possible explanation which he gives is that most vendors now place the deadlines for their auctions in the evenings in the hope of getting as many customers as possible. The

customers therefore have a comparatively large range of products to choose from at this time of day. And this lowers the prices – despite the increase in demand in the evenings. However, anyone who ends their auction at peak working times does not need to compete with so many other rivals: the early bird catches fatter worms.

Source: University of Aachen

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