

## Some eBay Users Abuse Auction Site's Feedback System, Professor Finds

January 12 2007

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Some eBay users are artificially boosting their reputations by buying and selling feedback on the Internet auction site, according to John Morgan, a professor at the University of California, Berkeley's Haas School of Business.

"eBay harbors an active market for feedback, where users can buy a compliment to artificially boost their feedback status," Morgan explains. "Users enter this market to leverage their gains in reputation to get higher prices for other, presumably larger, transactions."

Morgan and co-author Jennifer Brown, a UC Berkeley Department of Agricultural and Resource Economics doctoral student, detailed the abuse on eBay in an article titled "Reputation in Online Auctions: The Market for Trust" in the latest issue (Fall 2006) of the journal *California Management Review*.

Under eBay's reputation system, buyers and sellers can submit feedback to each other at the conclusion of each transaction. The feedback consists of a rating such as positive, neutral, or negative and a brief description of the quality of the transaction. The transaction is bilateral, meaning that both buyers and sellers exchange feedback – and can thus increase their own feedback ratings – through a transaction.

Between June to December 2005, 526 sellers posted 6,526 unique feedback listings for low-priced or seemingly valueless items, whose sales appeared to be designed only to artificially enhance feedback

ratings, Morgan and Brown found. Seventy-six percent of the listings, or 5,127 items, resulted in a sale. A follow-up study revealed the market for feedback remained active in 2006, with 398 feedback listings counted from April 25 through May 30.

Morgan and Brown noted that more than 80 percent of the listings studied in 2005 and nearly 88 percent of the 2006 listings had a Buy-It-Now option and a price of one penny. With the Buy-It-Now option, a seller sets a fixed price and no bidding auction occurs for a sale. A Buy-It-Now sale for a penny automatically results in the seller losing 29 cents because eBay charges a 25-cent listing fee and 5 cents for the Buy-It-Now option.

"Such a listing makes no economic sense unless the seller is trying to increase his feedback rating," Morgan says.

Morgan and Brown tested the feedback market by buying a one-cent "Positive Feedback Ebook" from three different sellers in the U.S., UK, and Australia. They received a three-page file entitled "100 Feed Back in Only 7 Days," which advised buying 100 different items on eBay that cost almost nothing in order to "get your feedback score up to 100 in just a few days."

Why would eBay users buy and sell feedback? Several studies have found that positive feedback results in a higher selling price.

In fact, Morgan and Brown found one particular seller, whom they dubbed the landseller, had accumulated hundreds of feedback points in June 2005 by posting 304 offers for feedback enhancement on eBay. The landseller ultimately incurred a net loss of \$87.64 because most sales were Buy-It-Now listings for only a penny. After his feedback rating reached 598, the landseller went on to try to sell several parcels of undeveloped land in the southern U.S. on eBay. Opening bids ranged

from \$2,200 to \$6,000, although the landseller said the properties could be worth up to \$12,000.

"After receiving 100 percent positive feedback before entering the real estate market, the landseller mysteriously received no positive feedback in any of the land transactions," Morgan says.

Morgan, who has studied online marketplaces for 11 years, notes that eBay is banking on big-ticket transactions, including real estate and cars sales, to drive U.S. growth. "One wonders whether eBay will ultimately be the victim of its own success in making reputation valuable as users take advantage of the system and ultimately kill the golden goose," he says.

Source: University of California, Berkeley

Citation: Some eBay Users Abuse Auction Site's Feedback System, Professor Finds (2007, January 12) retrieved 24 April 2024 from <https://phys.org/news/2007-01-ebay-users-abuse-auction-site.html>

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