

# High eBay shipping costs: When do surcharges affect the purchase price?

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Ever find a bargain online, only to realize that the cost of shipping doubles how much you'll pay? Shipping-and-handling sticker shock accounts for about 30 percent of all online shopping cart abandonment, but prior research into the effects of surcharges has been inconsistent. Why do consumers sometimes pay attention to additional fees – such as when buying from a catalogue or on a phone bill – and sometimes just accept them?

In a new paper from the June 2008 issue of the *Journal of Consumer Research*, Amar Cheema (Washington University) offers an explanation for this range of reactions. Buying an item sight unseen requires a significant amount of trust, and Cheema shows that the seller's reputation can have a significant impact on how much attention consumers pay to additional charges.

Cheema found that consumers spent more time scrutinizing their decision before deciding to purchase a designer scarf in an online auction when the seller had a poor reputation (72.37 seconds, on average), as opposed to a good reputation (53.75 seconds).

This increased attention made it more likely that the consumer would notice higher surcharges, Cheema explains. It also decreased the likelihood of purchase and lowered the amount consumers are willing to pay for an item.

Cheema looked at sales on Ebay of three DVD trilogies: Godfather,

Lord of the Rings, and Star Wars. Among sellers with an Ebay feedback score of 0 to 110, every \$1 increase in shipping and handling charges decreased the winning bid by \$1.18. In contrast, Cheema found that the effect of surcharges was not significant for medium-reputation sellers with a feedback score of 111 to 752, or for high-reputation sellers with a feedback score from 753 to 24166.

“This research shows that a high reputation can shield sellers from increased scrutiny by customers,” Cheema writes.

Cheema suggests that sellers with poor reputations can avoid this phenomenon by absorbing the shipping charge or any other surcharges into the base price of the item, offering one consolidated price.

“Surcharges are often important cues that consumers attend to, especially when buying from low-reputation sellers” Cheema says. “Eliminating this cue by offering consolidated prices therefore benefits low-reputation sellers more than high-reputation sellers and suggests a prescriptive approach by which the former can attract suspicious buyers.”

Citation: Amar Cheema, “Surcharges and Seller Reputation.” *Journal of Consumer Research*: June 2008.

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