

## Reputation not Regulation

### What can we learn from eBay?

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### The New New Thing

The first wave of Internet retailers certainly taught us many lessons about new ways of doing business in the on-line environment. They didn't really teach us much about new business models, however, because their business models were well-known. It has been described as mail order on steroids, which is a reasonable description of the fundamental operation of most business-to-consumer (B2C) sites. Companies certainly can interact with their customers via the Internet in rich ways that are simply infeasible in physical environments. Realistically, though, there's nothing much different about ordering some pants from Land's End on the web or over the phone while looking at the catalogue (except that looking at the catalogue and phoning is quicker and easier).

I think that online businesses based on the person-to-person (P2P) model have more to teach us in terms of future business. Auctions are the prime case in point: by allowing people to trade with other people (that they wouldn't generally be in touch with), they enable transactions that wouldn't otherwise take place. The efficiency of those transactions (payments apart, but that's another story) meant that small businesses soon moved in. Take a look at eBay. It isn't simply a global car boot sale: it is an entire sub-economy of individuals and small businesses, some of which aren't so small: after all, eBay has more than 16m registered users who form a sizeable market. If you think it's just a glorified boot sale, look at some of the examples in Table 1 below:

Business	Products	eBay Experience
Swan's Antiques, Peterborough	Antique French furniture	eBay is 15-20% of turnover
Comic Shack, Leytonstone.	Comic books	50% of turnover, 10-12 items sold per day on eBay: "We are selling stock that would otherwise be laying around gathering dust".
Helena Collectables, Surrey.	Porcelain Dolls	£18,000 per month on eBay, now 60% of turnover

*Table 1. Examples of eBay UK Sellers.*

I've used eBay to buy a few things. In general, when I'm looking for something very specific, price is not the determining factor. Nor, for that matter, is location. It doesn't really matter whether the item I'm buying is being shipped from Edinburgh or Cardiff because the postage is the same and I am not much bothered about the total cost anyway. Compared to driving around looking for items, both in terms of the time taken and the expense, paying postage is a better alternative. If I find the item that I'm looking

for, then, I don't really care whether it's £19.50 or £20.50 and I don't really care whether the postage is 50p or £1.50p.

In fact, if I do a search on eBay and find the item that I'm looking for, then my first action is to check not the price, not the location and generally not the date of the auction (because I'm not that bothered whether it'll take 7 days or 10 days for me to get the item) but the seller's reputation. With a single click I can see who has been buying from that seller and I can also see the buyers' feedback about the sellers.

### Reputation: Sources and Destinations

The issue of reputation—and remember, this is all to do with the reputation of people that you don't know—soon becomes sophisticated. If you're buying items of a certain kind, then you will soon get to learn who are the other reputable dealers in that field. Consequently when you look at a seller's reputation, positive comments from people you know to be reputable count for far more than positive comments from strangers. In other words, in a relatively short time, a sophisticated reputation hierarchy develops and it is in everyone's interest to maintain it in order to minimise overall transaction costs. All of this takes place without external reputation "regulation": government ratings agencies and the like.

The system isn't perfect, of course. Until the technology for managing digital credentials and digital reputation is widespread (public key infrastructure, or PKI, one of this year's hot technologies ) then reputations are managed only on the basis of e-mail addresses. This means that the upper limit on transactions must remain limited since it is too easy to obtain and forge e-mail addresses, leading to "schill" auctions where the seller bids for their own items (to ramp the price) to multiple e-mail addresses. A similar problem cropped up when Amazon introduced a ranking system for reviewers. Amazon's message boards lit up with stories of gangs of "review bashers" determined to 'win' a higher ranking by trashing other people<sup>1</sup>. In time, however, the arrival of more secure digital identity mechanisms will help lift the limit.

These technologies (eg, certificates) provide a means to manage persistent identity and credentials (and therefore reputation) in a consistent way. Thereby avoiding a whole range of identity-associated issues. As one successful eBay UK seller noted, after being mistaken for a different, fraudulent seller [2]:

*...they have no phone help service. You have to send an e-mail and wait for a response, which sometimes takes several days... the last time they did it, their American office rang me up the next day to ask if I wanted a free trip to their US offices as a prize for being one of their 'Valued Sellers'. I said no.*

This is a lesson for the future of online commerce which is worth studying. In a global low transaction cost marketplace, reputation could become the crucial pivot on which transactions depend. Note also that knowledge of reputation is quite distinct from absolute knowledge of the seller's identity. If I find a seller labelled as John Doe, I really have no interest in discovering their underlying identity: that takes time and effort. If there are positive comments about them from people whose opinion I value then I will do business with John Doe. If there are negative comments, then I won't. And it won't

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<sup>1</sup> A class of people wonderfully described as "retalirators".

matter to me whether John Doe has badge from the local council, the government or some other body's approval. My decision will be based not on what anyone thinks, but on what everyone thinks [3].

**Please note** that an edited version of this article originally appeared in *The Guardian* (London) in the *Online* supplement, p.12 (2<sup>nd</sup> November 2000).

### References

1. Hamilton, J. *A Wide Web of Advice* in *Business Week e.biz.* p. 14–15 (22nd Jan. 2001).
2. *Niche traders use auction sites to expand* in *Net Profit* (52): p. 3–5 (Apr. 2001).
3. Birch, D. *Reputation not Regulation* in *The Guardian* (Online section): p.12 (2nd Nov. 2000).