

USERS' SELECTION OF E-AUCTION WEBSITES IN CHINA: THE EFFECTS OF DESIGN, TRUST AND COUNTRY-OF-ORIGIN

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ABSTRACT

With the world's second largest Internet population and a huge potential e-commerce market, China has been witnessing a remarkable growth of online auctions in recent years. However, there are few studies that have investigated the e-auction phenomena in China, and current literature gave little guidance on the design and development of e-auction websites. To fill this void, this research compares and contrasts user's perceptions toward two most popular e-auction websites: eBay China and Taobao. Besides investigating the differences of website design and trust-building mechanisms between these two websites, this research introduced the concept of Country-of-Origin (COO) into the research model and studied its effects on Chinese consumers' selection of these two sites. The research results bring insights to the researchers who are interested in understanding China's e-auction status and to the practitioners who want to expand e-auction business in China.

Keywords: E-commerce, E-auction, Country-of-Origin, China, Websites

INTRODUCTION

Catalyzed by eBay's success, e-auction has quickly become one of the major e-commerce forms and is being accepted all over the world. Unlike traditional auctions that were limited in scope, time and space, online auction has brought up a new online shopping mechanism providing participants with an all-encompassing selection of goods they can buy or sell. In the cyber world, a vital mass of consumers, located on different continents, can simultaneously replicate almost any real-world business activity and participate in auctions, with a click of a mouse button. Participants are also relieved of the social awkwardness and time-consuming nature of face-to-face haggling; many simply automate their bidding, letting the computer take care of the negotiation. Millions of globally dispersed consumers now engage in competitive exchange via bidding and can set prices that reflect real-time supply and demand as efficiently as any trading floor [3].

E-auction in China

China, with world's second largest Internet population, witnessed the start of online auction in 1999 when Eachnet, founded in Shanghai by two Chinese Harvard graduates, was first introduced [17]. In 2003 Eachnet had 4 million users, claiming a predominant 85 percent market share of online auctions in China. Online giant eBay acquired Eachnet and started its own business in this world's largest potential market. In China, facing limited retailing competition from a few fashionable malls that have sprung up in large coastal cities, eBay offers a far broader mix of goods on its site [9]. Invested by the largest business-to-business (B2B) e-market in China—Alibaba.com, and Japan's Softbank Corp., Taobao.com was founded in July 2003. Before Taobao was launched, eBay was almost the only player in China's e-auction market. However, Taobao quickly grew from about 9% of the online auction market share in the first quarter of 2004 to 41% by the fourth quarter of the same year. Total registered users of Taobao reached 13.9 million while its chief rival, eBay China, had about 17.9 million registered users by the end of 2004 [17].

According to China Internet Network Information Center [7], the population of Internet users in China reached 111 million by the end of 2005, which means that one out of nine Internet users in the world are from China. With the phenomenal growth rate of the online users, the growth of the e-commerce market has galloped simultaneously. 24.5 percent of Internet users regard online shopping as their most frequently-used function with Internet [7]. Online auction is playing a more and more important role in the growth of e-commerce in China. The volume of online transaction in China will grow from 1.92 billion Yuan (about USD \$232 million) in 2003 to 8.06 billion Yuan (about USD \$1 billion) in 2006 [7]. Among those online auction websites, eBay and Taobao are two major players dominating the online auction market in China [17]. Contrasted to its rapid growth of e-commerce growth, the research on e-commerce in China, especially in the online auction field, is limited. Most studies relied on second-hand data to investigate the phenomenon [26] or concentrated on specific e-commerce features such as

the reputation systems in online auction [17]. Few could give a comprehensive picture about e-auction in China and elaborate on Chinese consumer's perception and selection of e-auction websites.

After China made its entry into WTO, many multinational IT/IS companies situated their business in this country. They often have to face fierce competition from the local rivals. Consequently, after investing millions of dollars, many multinationals ended with gaining nothing in China. For example, Yahoo ventured into China in 2000. After continuous investments into marketing and consolidation with other domestic websites such as 3721.com (in a \$12 million USD deal), Yahoo online business was still stagnate, compared to other domestic players. Eventually, Yahoo had to sell all its business in China to Alibaba in 2005.

This paper is intended to investigate users' perceptions and selections of e-auction websites in China. Through the survey, the factors influencing the user's choice of e-auction websites are illustrated. In addition, the Country-of-Origin (COO) effect will be first introduced to the e-commerce research to identify its influence on consumers' selection of online auction websites. It is very helpful for foreign businesses that are considering exploring e-commerce and e-auction markets in China. In particular, research about the fast-growing online auction markets in China will provide the important insights in revealing the trend of global electronic market. The research is organized as follows: the next section provides a literature review of e-commerce in China. It is followed by the research methodology in the third section. Data analysis and results are presented in section four. Conclusions are provided in the last section.

LITERATURE REVIEW

E-businesses in developing countries such as China face challenges different from those in developed countries in Europe and North America, due to the difference in traditional business models, conventional consumer behaviors, and consumer expectations [26]. Several studies have attempted to explain the status and characteristics of online auctions in China. Quaddus et al. [20], for example, found that subject norm, trust and behavioral control have a significant impact on the buying intention in Chinese online auctions. Wong et al. [26] found that the whole e-commerce market in China was significantly influenced by local economic development, user behavior, and traditional business. Specific country-related factors have shown a great

impact on the current e-commerce market and its future development.

The notion of 'Country-of-Origin' (COO) was first introduced in marketing research, which can be classified into two categories: 'country of origin of the product' (COOP)—the country where a product is manufactured; and 'country of origin of the brand' (COOB)—the country in which the head office of the company that owns the brand name is located [16]. Knight [13] found that country of manufacture strongly influenced consumer decision making in globally available product choices. Moon [19] found a negative relationship between consumers' product knowledge and their utilization of COO information. His research revealed that there was a need to consider the effects of consumer ethnocentrism on their utilization of COO information, which means to some consumers a domestic product would offset its inferior quality compared to a foreign product. Other scholars have generated similar results, Speece [24] discovered that low prices could not be used to overcome negative COO image. Davidson et al. [8] studied beef consumption in Scotland and found that COO was regarded as important as other identified product attributes such as price and visible leanness. Liefeld [16], however, argued that COO effects were real but not an important attribute in the consumers' choice making.

Some researchers have studied the online behavior of consumers in different countries. Chau et al. [5] noticed that Consumers in different countries with different ethnic origins not only used the Web for different purposes, but these different purposes could lead them to have different impressions of the same websites. Lee et al. [15] found that the social and cultural drivers throughout online behavior would influence electronic commerce. When E-commerce giants aggressively expand their business all over the world, the COO effects should be evaluated strategically. Together with website design issues and the influence of online consumer behavior, COO effects would eventually attribute to their online business retention and success in different countries.

RESEARCH METHODOLOGY

To investigate e-auction in China, a research model is established (Figure 2), and three propositions are raised.

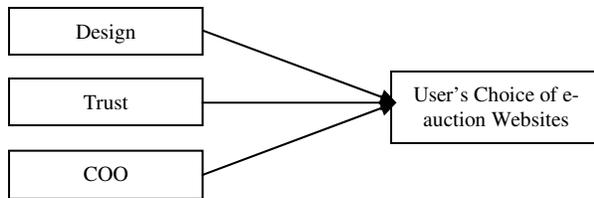


Figure 2. The Proposed Research Model

Whether a consumer participates online shopping is greatly influenced by the design of the websites [6]. Rice [22] discovered that the most important variables in perception of a website were design features such as content, layout, ease of finding information, navigability, and emotional experience, such as enjoyable visits. Hahn [10] found that it was a critical factor that the ability of the auction interface to effectively help buyers locate products. Researches also indicated that perceptions of high service quality of the websites could be increased through the website was easy to use and presented a well-designed structure and layout [25]. In addition, Kohli et al. [14] discovered that online support for the choice phase was directly and significantly correlated with overall satisfaction of the purchase decision-making process. Eventually, with adequate online support in the website, higher satisfaction was mediated by consumers' recognition of time savings and costs savings during online shopping. Based on the above, the following proposition is formulated:

Proposition 1: the better design an online auction website has, the more people choose to use the website.

In line with previous studies, trust is regarded as the single most important factor in successful e-commerce. For the Internet purchasers, in order to avoid the uncertainty of shopping online, they tend to purchase in the same online store so as to obtain the consistent and reliable service [4, 21]. The trustworthiness of a website can be established via different means, such as protecting personal private information, recruiting high reputation sellers, and maintain high information quality of the website.

When a growing number of electronic transactions take place without personal interactions, the role of trust will consequently become more important. Slyke et al. [23] found that the perceptions of trust were significantly related to intentions to shop over the Internet. Since the use of e-commerce applications on the Internet usually involves both personal and financial information, the feeling of trust must exist before users want to use the system.

In the absence of face-to-face contact, users must attain sufficient trust before they will make deals through the websites [12]. Without trust towards the online auction websites, the relationship between online buyers and sellers will neither take place nor continue.

Some researchers have argued that e-auction business strategy has to be customized in China. For instance, Wong et al. [26] contended that physical contact with the products was the major characteristic of online consumer behavior in China. Quaddus et al. [20] found that even though Chinese consumers showed positive attitudes toward online auctions, they would not pursue it until they regarded it as safe enough to trade online. Unlike its use in western countries, the credit card is not a major method of payment in business, mainly due to the fact that most Chinese do not trust plastic as a secure form of payment [9]. Online feedback mechanisms can play a role that trust has in e-auction. For example, eBay's seller/buyer reputation system proves that there is a practical economic value attached to the institution of trust-building technologies [2, 12]. Lin and Li [17] compared the feedback mechanisms of both eBay and Taobao and found that trust played an extremely important role in e-auctions in China because Chinese consumers preferred face-to-face deals. Based on the above discussion, the following proposition is presented:

Proposition 2: the more people trust an e-auction website, the more they choose to use the website.

As discussed previously, some researchers have found that consumers often associated product quality with COO, which eventually influenced their decision making [1, 18]. Mohamad et al. [18] investigated Malaysian consumer perceptions of products originating in developed, newly industrialized, and developing countries from four facets: innovativeness, design, prestige, and workmanship. It showed that products made by countries in different development levels indeed impact Malaysians' purchasing preference. Hsieh [11] found that consumers tended to have a stronger preference not only for products that originated from their own countries, but also for those from countries in the same region, and COO effect was more influential in the country where the availability of international brands was low. Though COO effects on consumer behaviors were examined, very little systematic effort has been applied to investigate its influence on online consumer behaviors. Chau et al. [5] and Lee et al. [15] argued that country issues like culture and social habits should be involved in

research on websites. This study introduces the COO concept into e-auction study and investigates how it impacts customers' preference of online auction. The following proposition is raised:

Proposition 3: COO effects have a significant correlation with consumers' selection of online auction websites.

A survey instrument composed of three parts was developed for this study. The first part consisted of measures adapted from the established instruments that addressed online shopping and online auctions. The second part used Likert-scale measures of COO and evaluations of both eBay and Taobao. The third part collected demographic information from the respondents.

DATA ANALYSIS AND RESULTS

The questionnaire was distributed to 150 Chinese college students in Shanghai. Completion of the survey was voluntary. Nine partially-completed surveys were discarded resulting in a final sample size of 141. Of the responses, 46.8% were males, and 53.2% were females. About 50% of the respondents' personal monthly income ranged from USD \$65 to \$125. Over 70% of the respondents' household income varied from USD \$187 to \$750 per month.

When asked for the reasons for using online auctions, half of the respondents listed convenience as the major motive (46.8%) and price as the second most significant reason (40.4%). On the other hand, 63.1% of respondents listed 'the post-sale service' as their biggest concern in online auction. In addition, 'quality of goods' (51.1%) and 'security issues' (48.2%) are two other major concerns of the respondents. As for the choice of different e-auction websites, "more goods available" (44.7 %), "better price" (36.2 %) and "better website layout and navigation" (31.9 %) were the three most important reasons for online consumers to choose an e-auction website. However, the 'Country-of-Origin of online auction website' was not a major reason for a user to pick up an e-auction website.

For the first two propositions, a total of 9 questions were asked to assess the interrelationship between perspectives of consumers toward eBay and Taobao. Regression analysis indicated that 'abundant goods supply on the website' and 'good customer service' had a significantly positive relationship with consumers' selection of eBay, which means these two characteristics were the two major reasons for consumers to conduct auctions on eBay. In contrast,

regression analysis found that 'good website navigation,' 'convenient payment method' and 'reliable payment method' significantly correlated with consumers' choice of Taobao, which revealed that Taobao users paid more attention to these three features. Evident from the regression analysis results, the design of e-auction websites (in terms of navigation, convenience and goods supply) and the trustworthiness of e-auction websites (in terms of reliable payment methods and responsive customer service) are the two main factors that influence consumers' perception towards e-auction websites, which supports the first two propositions.

A one-way ANOVA was conducted to measure the difference of respondents' preferences of Taobao, a China domestic website and eBay, a US-originated website. Results showed that the COO of a website is a critical factor in users' selection of the website to browse ($p < 0.05$), a reason for users to choose China domestic websites ($p < 0.01$), and a significant factor in users' decision of choosing their most frequently-used online auction website ($p < 0.05$). Proposition 3 is supported.

DISCUSSION AND CONCLUSION

The understanding of online consumer behavior and preferences are extremely critical for studying e-auction adoption phenomenon in China and for e-auction businesses that want to establish the appropriate strategy when starting or expanding their businesses in China. When the competition among websites is getting fierce and consumers have many websites from which to choose to conduct their transactions, knowing what factors actually influence consumers' selection of a website (over another) becomes critical.

Design, trust, and Country-of-Origin of the e-auction website are the three major factors that impact users' selections of e-auction websites in China. Taobao has better recognition from its website navigation, payment convenience, and payment reliability while eBay leads in sufficient supply of goods and good customer service. Moreover, online consumers preferred China-domestic e-auction websites rather than a website with a foreign origination. Due to its "made in China" hallmark, Taobao's navigation style and usage pattern is much easier to be accepted by Chinese consumers. Moreover, Taobao has developed its specific payment method—Zhi Fu Bao, which has intensely intertwined Chinese traditional trade habits, i.e., price negotiation with a typical Chinese finance background—conducting transactions with cash instead of credit; providing a

reliable and favorable e-auction environment for both sides of the deal.

From the survey results, Taobao seems to be recognized as a better e-auction website than eBay in China, which can help explain why Taobao keeps gaining more market shares while eBay loses. E-auction websites should not simply copy everything to China from what they did successfully in other countries. Customization and localization are the two important strategies of growing e-auction business in China. The research findings can also explain why after continual investments in technology and marketing, eBay China still remains unprofitable [17]. A strategy of better integrating with the local culture could be helpful for eBay China to remove its negative Country-of-Origin effects.

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