

## Comparing Exporters with Domestic Retailers on eBay: An Eclectic Paradigm Approach

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### ABSTRACT

The Internet has fueled the growth of hundreds of thousands of small and medium sized enterprises (SME's), many based in Asia, that export goods via the Internet to global retail markets. Internalization theory and the Eclectic Paradigm of International Production are used to develop a theoretical framework to predict and explain possible differences in the levels of marketing competence between foreign exporters and domestic e-tailers on the American site eBay. Domestic sellers are hypothesized to have greater experience, greater likelihood of being Power Sellers, lesser likelihood of having a "Me" page, and lower feedback ratings. Based on a sample of 4560 eBay completed sales, domestic sellers were found to have more experience, and greater likelihood of being Power Sellers. There was no significant difference between domestic sellers and exporters in terms of having a "Me" page or feedback ratings, although domestic sellers in the sample did have higher feedback ratings on average and the relationship was near-significant.

**Keywords:** *International marketing, internationalization, internalization, eclectic paradigm, eBay, e-commerce, Internet marketing, exporting, entry mode, SME*

### I. INTRODUCTION

One consequence of the worldwide growth of the Internet since the mid-1990's has been the emergence of hundreds of thousands of small and medium enterprises (SME's) that target and service global markets. The worldwide web facilitates cheap and seamless global communication between sellers and buyers. Small manufacturers and shoestring intermediaries regularly utilize the Internet to sell goods across national boundaries with little or no resource commitment. This mode of international marketing is traditionally known as "direct exporting." It is a basic, or low involvement, mode of international trade favored by smaller firms willing to sacrifice control and higher profit potential for lower fixed costs and greater flexibility [1]. Higher involvement entry modes include various types of joint ventures and foreign direct investment.

Use of the Internet as a vehicle for small firms to engage in direct exporting has been described as a "bottom up" or "grassroots" approach for small firms in developing countries to gain a foothold in mature markets by setting up virtual e-tail enterprises with the hope that they can develop supporting infrastructure as sales grow. This has been a favored approach for numerous small online retailers from the Asia-Pacific region who sell consumer goods manufactured in that region directly to North American end-users via the worldwide web [2].

While there have been numerous studies focusing on entry mode and internationalization, most of them deal with large firms, managerial attitudes or country-specific circumstances. Very little has been written about smaller firms that operate internationally, or even globally, by

virtue of the communications capabilities worldwide web. These small firms do not account for a great portion of the retail activity in the US and elsewhere, but their share of the market is growing at a much faster rate than large firms, and they provide a great deal of the innovation and employment opportunity necessary to spark economic growth in their countries of origin. Therefore, understanding the nature of these small exporters -- how they operate and the factors that make them successful -- is an important step in the process of equalizing opportunity and standards of living throughout the world.

### II. LITERATURE REVIEW AND THEORY

Numerous theories and studies discuss and compare the advantages and disadvantages of one entry mode versus another [3]. Most of the literature on the subject supports the idea that direct exporting is a mode favored by small firms, whereas foreign direct investment is a mode more likely to be adopted by larger firms. Chitakornkijasil [4] notes that exporting has been a highly favored and growing entry mode for SME's in the early part of the 21<sup>st</sup> century, but that too many of them fail. Among the reasons he gives for these failures is the unwillingness of exporting firms to adapt their marketing to the cultural preferences of the host country, and insufficient financial commitment.

An early theoretical approach to market entry strategies by SME's was internalization theory [5]. The internalization view of internationalization considers it to be a pattern of investment in foreign markets explained by rational economic analysis based on transaction costs and

firm capabilities. Firms that have acquired (or internalized) international capabilities are more likely to enter foreign markets with a higher involvement mode of entry than firms that have not internalized the capabilities to operate in foreign markets. Thus, a firm that has been actively involved as an exporter for some period of time would be more likely to enter into a joint venture or direct investment arrangement than a firm that was just getting its feet wet in the international arena. One phenomenon not accounted for by internalization theory is the event of a firm organized specifically for the purpose of capitalizing on global market asymmetries. Such a firm would be required to internalize international capabilities without the benefit of incremental learning.

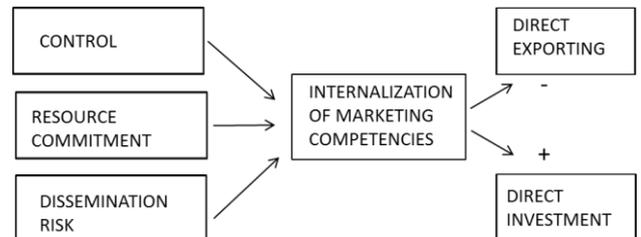
The most comprehensive and durable economic framework used to predict foreign entry mode by multinational firms is Dunning's Eclectic Paradigm of International Production [6]. The Eclectic Paradigm integrated a number of economic theories -- including traditional economic theory, internalization theory, agency theory and transaction cost theory -- into one system of understanding that proposed three dimensions to entry mode choice: resource commitment, control and dissemination risk. Dunning proposed that firms would opt for the lowest involvement mode (exporting) unless there were overriding market imperfections that dictated higher resource commitment and control, or moral hazards that threatened a firm's capability to protect its valuable capabilities and information. While Dunning's framework has come under criticism for being vague and insufficient [7], the Eclectic Paradigm of International Production has proved to be a robust model that has stood the test of time [8].

The Internet and all of its effects on internationalization were unknown and unimaginable to the theoreticians of the 1970's and 1980's. The availability of a communications medium that is inexpensive, instantaneous, global and can facilitate the exchange of digital information (including money) is likely to have resulted in a significant "paradigm shift" from the circumstances that were extant at the time Dunning's framework was originally developed. It seems all three of Dunning's dimensions were dramatically affected by the Internet as the web drives down costs [9], allocates control to the consumer [10], diminishes the value of intellectual property [11] and requires firms to become more and more transparent [12]. This suggests that perhaps the time is ripe for theory refinement in this area, particularly concerning SME's and their utilization of the Internet for direct exporting.

Figure 1 presents a theoretical construct that integrates the Eclectic Paradigm with internalization theory. The framework proposes that, in determining entry mode, firms consider three categories of transaction costs based on the need for control, the amount of resource commitment necessary, and the potential risk of

dissemination of the firm's proprietary information to potential competitors. Firms that require more control, or can leverage more resources to take advantage of scale economies, or possess a high risk of exposure due to loss of intellectual property or other information will be more likely to internalize the capability to conduct marketing activities in the host country. This can be expected to particularly apply to value-added SME's that act as intermediaries between producers and consumers, since their activities are much more marketing-dependent [13].

A proposition supported by the framework in Figure 1 is that firms that choose direct exporting as the mode of entry into a foreign market can be expected to have internalized a lower degree of marketing competency than either host country domestic firms or firms that engage in foreign direct investment. That is the overarching proposition of the present research.



**Figure 1: Theoretical Framework for Differences Between Exporters and Domestic Retailers**

One simple method for international firms to engage in direct exporting is by joining a global communication and distribution network that allows firms to promote their products to a large network of potential buyers, exchange monetary consideration, and facilitate global shipping logistics through third party carriers. In the global consumer market, the largest such network provider is eBay, which has a presence in 39 international markets with approximately 90 million active users worldwide [14]. International sellers can post items for sale on an eBay foreign site, either at a fixed cost or auction basis. Once an item sells, the seller can use eBay's information system to print a label and customs forms from a global carrier such as USPS or UPS. The buyer is then given a tracking number, and can expect to receive his merchandise in a reasonable amount of time.

Hu and Wan [15] found that, within the United States, domestic eBay sellers of both goods and services enjoy a price premium over sellers from foreign countries. They theorized that the premium occurred due to country-of-origin reputation effects rather than from any advantage domestic retailers might enjoy because of shorter shipping times or other geographic advantages. The fact that US sellers also enjoyed a price premium in the United Kingdom supported the claim. However, the same phenomena might be explained by the fact that US sellers, on average, have been active eBay sellers for a longer



period of time, and therefore have internalized greater marketing competencies, an argument consistent with the previous discussion.

The purpose of this research is to utilize archival data in order to test whether foreign firms that engage in direct exporting to the United States via eBay have internalized fewer marketing capabilities than US domestic and foreign direct investors who operate from within the boundaries of the US. Given that there is a known price differentiation on eBay between firms that export goods to eBay consumers and firms that ship goods domestically, it is of interest to determine whether this is primarily due to country-of-origin effects or the fact that firms operating within the US have internalized marketing competencies to a greater degree, and are therefore able to capture added value on that basis.

### III. SAMPLE AND HYPOTHESES

In order to examine whether international sellers differ from domestic sellers in terms of internalization of marketing competencies, archival data from eBay was employed. This well-established online intermediary keeps extensive records about sellers, including their track records and levels of experience. This data is readily available to everyone with access to the worldwide web. This, plus its wide network of users and products, makes eBay one of the most transparent and comprehensive Internet marketplaces available.

Utilizing a random number generator, 4560 eBay completed listings were selected at random, choosing the *n*th (*n* representing the random number) listing from a list of tens of thousands of eBay completed listings in all merchandise categories. The list was generated such that the most recent listings were first on the list, and the listings went back in time from there. The listings included both completed sales and expired listings in either fixed price or auction format. Ultimately, listings were represented from numerous and highly disparate eBay sales categories ranging from real estate to automobiles to low-priced collectibles. For each listing, values for five seller-related variables were noted. These variables are: 1.) The number of years the seller has been registered on eBay (YRS); 2.) whether the seller operated within the United States (US); 3.) the seller's feedback rating (RATING); 4.) whether the seller was an eBay Power Seller (POWSEL); and 5.) whether the seller had a "Me" Page (MEPAGE).

A presentation of relevant descriptive statistics for the data can be found in Table 1. The dependent variable (US) and two of the predictor variables (POWSEL and MEPAGE) are categorical. For this reason, the data was analyzed using simple one-way analysis of variance instead of a more sophisticated statistical method. The sample size is deemed more than sufficient for the purposes of the study.

**Table 1: Descriptive Statistics eBay Sellers**

VARIABLE	MEAN	MEDIAN	FREQUENCY
YRS	5.27	5.50	
RATING	98.59	99.8	
POWSEL			.502
MEPAGE			.296
US			.169

Searching for eBay data to verify the model in a comprehensive way was not possible given the limited information available on eBay. However, the five variables chosen could be used to test certain relationships suggested by the model. The number of years since a seller had registered as an eBay user was deemed a reasonable surrogate for experience. The relationship between time, experience and internalization is well established in the literature [16]. Firms can be expected to increase their internalization of competencies as time and experience progress.

One measure of marketing excellence on eBay is the designation "Power Seller." To become a Power Seller on eBay a seller must meet minimum requirements in sales volume (\$12K per year), Feedback ratings (98 percent) and customer feedback requirements in specific items such as shipping time and product representations. It can be assumed that the achievement of the designation "Power Seller" is an indicator that the firm so designated has internalized more marketing competence than a firm that has not earned the designation.

Another indicator of marketing competence is whether a seller has utilized the "Me" page function. The "Me" page is a special web page available to all eBay users at no cost. The page is used by retailers to differentiate themselves from competitors by communicating their selling propositions and sources of competitive advantage. A firm that has accomplished a higher degree of marketing competence would be expected to take advantage of this promotional vehicle.

The final surrogate for marketing competence used in the study is the percentage feedback rating, which is the numerical expression of the percent of the seller's eBay customers who have left a positive feedback. Feedback ratings have been used by numerous previous researchers to compare customer satisfaction between sellers [17]. Since customer satisfaction is the foundation of marketing, it can be assumed that firms with higher feedback ratings have internalized greater marketing competencies than firms with lower feedback ratings.

Given the limitations of the data at hand, four hypotheses arose from the theoretical framework, as follows:

H1: Non-US eBay sellers will have fewer years of experience than US-based eBay sellers



H2: US-based eBay sellers will be more likely to be eBay Power Sellers than non-US eBay sellers

H3: US-based eBay sellers will be more likely to have a "Me" page than Non-US sellers

H4: US-based eBay sellers will have higher feedback ratings than non-US sellers

#### IV. FINDINGS

The four hypotheses were tested using one-way analysis of variance with the variable US entered as the dependent variable, such that a value of zero indicated a US-based seller and a value of one indicated a foreign seller. The variables YRS, POWSEL, MEPAGE and RATING were entered as predictor variables. H1 was tested by examining the correlation between US and YRS. H2 was tested by examining the correlation between US and POWSEL. H3 was tested by examining the correlation between US and MEPAGE. H4 was tested by examining the correlation between US and RATING.

Of the four predictor variables, two were found to be below the .05 threshold for significance. Of the two significant variables, the variable showing the greatest disparity to the dependent variable was YRS. The relationship between all four variables was consistent with the hypotheses in terms of direction. The difference in means between US and Non-US sellers for the variable MEPAGE was very slight, and well outside the .05 threshold for acceptance of H3. The difference in means for RATING was marginally outside the range, suggesting that H4 might have been accepted with a slightly higher sample size or different statistical method for testing the hypotheses.

Table 2 shows the differences in mean scores based on the dependent variable. Foreign sellers are shown to have been registered as eBay users for an average of 3.25 years, whereas domestic sellers have been registered for an average of 5.68 years. The frequency of Power Sellers within the ranks of foreign sellers is 48.3 percent, whereas the frequency of Power Sellers within the ranks of domestic sellers is 59.7 percent. There was very little difference in the frequency of usage of the "Me" page as both groups participated at a rate of slightly less than 30 percent. Foreign sellers are shown to have an average feedback rating of 98.6 percent, whereas domestic sellers average 99.1 percent in feedback rating.

**Table 2: Mean Variable Scores by US**

	N	H1	H2	H3	H4
Non-US (US = 0)	770	3.25	.483	.296	98.5
US (US = 1)	3790	5.68	.597	.298	99.1
p		.000	.000	.860	.060

Thus, H1 and H2 are supported by this analysis, while H3 and H4 are not supported.

#### V. DISCUSSION

A number of interesting revelations regarding direct exporters and eBay arose from the study. One was the degree to which international sellers are becoming comfortable with eBay as a vehicle for conducting international marketing. There do appear to be some differences between exporters and domestic firms in terms of marketing competencies, however the gap between the two categories of firms is not as great as expected. One reason for this might be eBay's shift in strategic direction from its traditional posture as an online auction site that secondarily offered fixed price merchandise, to a fixed price priced site that secondarily offers auction merchandise [18]. This new business model may be more oriented toward maintaining consistency between sellers than the turbulent and risk-oriented marketplace that typified its earlier existence.

One question that arises from this study is the rate at which internalization can be expected to occur. Given that both US and non-US sellers averaged over three years of experience, it could be the case that there has been an equalization in internalization effects between the two groups. Had there been better than a two year gap between the two groups with the average experience of non-US sellers less than two years, there may well have been a wider gap between the two groups in terms of the other predictor variables. The concept of internalization is closely related to the learning curve, and it is well established that learning curve effects diminish and ultimately level out with time [19].

Slightly more than half the sellers in the study were identified as "Power Sellers." In order to become a Power Seller, a seller must have sales consistently over one thousand dollars per month, 98 percent feedback rating, and average better than 4.5 stars (out of a possible 5) on four service dimensions. This suggests that Power Sellers would necessarily be more focused on the service dimensions of their businesses than other eBay sellers. The fact that POWSEL was found to be significantly related to US lends credence to the notion that there is a gap in internalized marketing competencies between US and foreign firms that operate on eBay. However, although the difference is significant, it does not appear to be great. Roughly 60 percent of the US sellers we sampled for this study were Power Sellers while nearly half of the foreign sellers had earned that designation, a difference of only ten percent.

Another interesting finding is that only 30 percent of the sellers utilized eBay's "About Me" page. The About Me page is a free feature that allows sellers to create an image for themselves and perhaps draw some distinctions between themselves and other eBay sellers.



Given that having an About Me page is free promotion, it is curious that less than a third of sellers use it. Perhaps a majority of eBay sellers, both foreign and domestic, think non-price competition makes no on eBay. If this is the case, then internalized marketing competencies may not be as salient to eBay sellers as other aspects of business, such as procurement, cost containment and logistics. However, as previously noted, there is an established price differential between foreign and domestic sellers on eBay's US-based site, so there must be some difference in consumer value perception between foreign and domestic sellers. Certainly, if more foreign sellers were to make use of eBay's "Me" page promotional tool it could do no harm in terms of changing this perception.

Although the mean difference was found not to be significant, the finding of a near-significant difference in feedback ratings between non-US and US eBay sellers is perhaps more noteworthy than the finding of a significant difference in the number of Power Sellers. This is because eBay buyers are known to weigh slight feedback differences between sellers quite heavily [20]. One factor that might explain the difference in feedback rating between the two groups is the fact that transportation costs are necessarily higher, and delivery time necessarily longer for goods purchased from non-US sellers. Whatever the explanation, although the relationship was found not to be statistically significant, there does appear to be a gap in customer satisfaction between US and non-US eBay sellers, and this could at least partially explain why non-US sellers must sell at a discount to compete.

## VI. LIMITATIONS

The price differential between US-based and non-US based sellers was not testable with the dataset used for this study as the sample did not pair different sellers with identical or similar merchandise. A difference in the mean price between the two groups would therefore have had little meaning. For that reason, the variable was not collected, and the price relationship discovered by previous researchers was assumed to hold for this data. This study is confined to the realm of eBay, which in many ways is a unique international retail sales venue. It is an Internet-based platform with both fixed price and auction offerings and highly controlled exchange and transportation information. Therefore, the results may not be generalizable to other Internet domains or to the realm of international marketing.

## VIII. CONCLUSION

This research offers an alternative explanation to the proposition that price asymmetries between foreign and domestic sellers on eBay are due to country-of-origin

effects. The differences in internalization between the two groups of sellers may also be offered as an explanation, but this study is by no means definitive in that regard.

It might well be accurate to say that US-based sellers are able to garner higher prices for both reasons, or for reasons yet to be investigated.

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