

Chapter 14

Can Web Seals Work Wonders for Small E-Vendors in the Online Trading Environment? A Theoretical Approach

Xiaorui Hu

Saint Louis University, USA

Yuhong Wu

William Paterson University, USA

ABSTRACT

Trust is a major issue in e-markets. It is an even more prominent issue when online shoppers trade with small, less-established e-vendors. Empirical studies on Web seals show that small e-vendors could promote consumers' trust and increase Web sales by displaying Web seals of approval. This article takes a theoretical approach to examine online trading when seals are used in e-markets. We establish an online shopper's decision-making model to reveal the online shopper's decision-making criteria. Criteria include when to trade with a well-established e-vendor and when to trade with a small, less-established e-vendor, with or without a Web seal. Based on our analysis of the research results, we reveal the price effect, the seal effect, the reputation effect, and their impact on a shopper's decision-making process. Meanwhile, a social welfare analysis is conducted to further demonstrate the positive impact of Web seals on small, less-established e-vendors.

INTRODUCTION

The Internet and World Wide Web have emerged as powerful media for communication and merchandise distribution. Cyberspace retailers

are prospering and are now a potential threat to traditional retailers (Sanderson, 2000). Retail e-commerce sales have experienced fast and stable growth; these sales reached \$110 billion in 2006, up 30% from 2005 and almost 100% from 2003.

Meanwhile, e-commerce as a percentage of total sales has also steadily increased from 0.9% in 2000 to 2.8% in 2006 (U.S. Census Bureau, 2007).

Rapid growth in electronic commerce is largely due to its inherent advantages as a medium. Internet shopping has the merits of convenience (such as 24-hour availability, no travel cost, and an easy global reach), the ability to quickly and cost-effectively search product and service information, and the ability to obtain competitive prices through comparison among various e-retailers (Kau, Tang, & Ghose, 2003; Peterson, Balasubramanian, & Bronnenberg, 1997; Wolfinbarger & Gilly, 2001).

Although Internet sales are booming, many people still perceive the risks associated with online trading to be high. Consumers' inability to inspect online products and merchants results in uncertainty about product quality and distrust of e-vendors (Bhatnagar, Mishra, & Rao, 2000; Van den Poel & Leunis, 1999). In addition, consumers are concerned about privacy and security issues associated with online shopping, because their personal identification information and other important data (such as credit card numbers) could be inappropriately handled or even misused (Bhimani, 1996; Ford & Baum, 1997; Griffin, Ladd, & Whitehead, 1997; Miyazaki & Fernandez, 2001). Some recent statistics reveal how serious these issues have become. According to Internet Fraud Watch (2005) the National Consumers League (NCL) received 12,315 complaints in 2005, compared to 10,794 in 2004. In 2005, the average loss per complaint was \$1,917, and double that in 2004 (\$894 average loss per complaint). Meanwhile, the Internet Crime Complaint Center (IC3, 2007) received its millionth complaint on June 11, 2007. Since beginning operation in May 2000, IC3 has referred 461,096 criminal complaints to federal, state, and local law enforcement agencies around the country for further investigation. The total dollar loss from all these referred cases is estimated to be \$647.1 million (see <http://www.ic3.gov>).

Consumers enjoy the convenience, price advantage, and other benefits of online shopping, but they want to be protected from Internet fraud and other malicious activities. Online shoppers are advised to do business only with those with whom they have had favorable experiences. When consumers become interested in trading with less-established e-vendors, they are advised to thoroughly research these e-vendors. Recommendations include checking with state or local consumer protection agencies or the Better Business Bureau and reviewing other customers' feedback about a specific vendor (Internet Fraud Watch, 2007; U.S. Department of Justice, 2007). Given that most consumers are reluctant to spend the time and effort to perform thorough background checks on small online businesses, risk-averse consumers generally will conduct business only with well-established e-vendors (Lasica, 1999). This implies that companies with an established reputation either offline (e.g., Wal-Mart, Sears) or online (e.g., eBay.com, Amazon.com) enjoy a competitive advantage in e-markets.

One might wonder whether these small, less-established e-vendors could find methods to attract online shoppers and eventually prosper in e-markets. As a matter of fact, it is the active participation of small entrepreneurs in e-markets that fosters competition, which benefits consumers with lower prices, more choices, and better services.

Recently, the use of third-party Web seals (also called Internet seals of approval) as trust-enhancing mechanisms has attracted attention from both practitioners and academic researchers. These seals attempt to address consumers' various concerns—such as information privacy, transaction security, and complete/accurate transactions—about online shopping (Cook & Luo, 2003; Kimery & McCord, 2006). A few Internet seals are becoming well known in e-markets, such as Truste, VeriSign, WebTrust, Good Housekeeping, and BBBOnLine. The seal issuer charges e-vendors for enrollment, with fees ranging

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