

EXECUTIVE SUMMARY

Many researchers have suggested that the rapid growth of the consumer-to-consumer online auction market is largely due to the widely accepted online reputation system. It is not surprising, therefore, to find a number of emerging studies related to online reputation systems. For example, Lin et al. (2003, 2006) used reputation scores from the online reputation system to study the market structure of online auction market. They found that the distribution of reputation scores in eBay can be approximated to a geometric function. Their results suggest that the reputation scores are lognormally distributed but did not follow Gibrat's law of proportionate growth because the smaller sellers grow faster than the larger sellers. The researchers also did a comparative study between eBay and Taobao and found that Taobao had a similar structure with eBay. Following the previous research on the online reputation system, this research is intended to do more analysis on the Chinese online market.

The study examined four sub-markets in Taobao - clothing, cosmetics and jewelry, computers and computer accessories, and the food and health products categories. By using logarithmic transformation and Wald-tests, it was found that all the four sub-markets of Taobao did not follow Gibrat's Law and their distributions of the reputation scores are not exactly in a lognormal distribution. Moreover, many sellers have just one reputation score. The results are different from previous research. Following Hart

and Oulten (1996), and using Ordinary Least Squares and t-tests, it was found that there were some differences among sub-markets. Smallest sellers have fastest growth compared to other sellers in clothing industry, cosmetics and jewelry industry, food and healthy products industry. For computer and computer accessories industry sellers with a certain foundation grew fastest.

The initial findings from this research show that Gibrat's Law may not be applicable to the Chinese online auction market. This study, therefore, further examined the reputation scores using the Galton-Markov process. And the results provided more information about Taobao and extend research on the Chinese online auction market. The study contributed information about each submarket. The findings can help new sellers to analyze which kind of products they will provide and enter into which sub-market. The results can also help Taobao managers formulate policies to help the healthy development of the market.