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Abstract

In this paper, we present a case study of two major consumer-to-consumer marketplaces that adopt different platform governance strategies and examine how the users of each marketplace trust other users and the marketplace platforms. Our study was conducted in two steps: qualitative and quantitative research. As a first step, we conducted interviews with the directors of the two platforms. As the second step, we conducted user survey to assess the user perception of platform governance strategies. The preliminary finding from our interview with the operators of two major C2C marketplaces shows that the both operators acknowledge an effective governance system as the key factor of success, but adopt different approaches to ensure effectiveness. Two different strategies for platform governance are adopted: proactive and reactive. The preliminary finding from our user survey indicates that users perceive a reactive strategy as more effective compared to a proactive strategy.

Keywords: C2C platform, platform governance, auction fraud, trust

Introduction

Online marketplaces are broadly categorized into two categories: business-to-business (B2B) marketplace and consumer-to-business (B2C) or consumer-to-consumer (C2C) marketplace (Pavlou and Gefen 2004). A business-to-business marketplace facilitates exchange among organizations. The second category facilitates transactions involving consumers. This paper focuses on the latter category, especially the C2C marketplace.

A recent prominent trend in the ICT environment is the emergence and rapid growth of C2C platforms, which according to the Ministry of Trade, Economy and Industry of Japan, has an estimated market size of 1 trillion Japanese yen (approximately 8.8 billion USD). The C2C marketplace can be considered as a form of multi-sided platform, which comprise technologies, products, or services that create value primarily by enabling direct interactions between two or more customers or participant groups（Hagiu 2014). In the case of a C2C marketplace, the platform enables users to sell and buy products.

C2C transactions are different from B2C transactions in various ways, and require new models of operation (Jones and Leonard 2008, Hennig-Thurau et al. 2010). First, the degree of seller uncertainty is considerably larger in C2C transactions. According to Dimoka et al. (2012), seller uncertainty is defined as the buyer's difficulty in assessing the seller's true characteristics and predicting whether the seller will act opportunistically. The quantity and quality of the information regarding sellers are limited in a C2C platform, whereas in a B2C platform, the sellers provide full information of their companies, products, and services. In some cases, platforms allow users to use a nickname and stay anonymous during the transaction process. The lack of information on users raises

the uncertainty and risk of the transaction for both sellers and buyers. The second difference is the continuity of the buyer–seller relationship. Given that the sellers in a C2C marketplace are consumers who became retailers themselves, they are not professional sellers (Hennig-Thurau et al. 2010). This means that sellers are "open" for business only when they want to do so. Furthermore, these amateur sellers rarely have an inventory of their products. Given that the product sold in C2C transactions are often secondhand, the buyer–seller relationship tends to end in one transaction. In summary, C2C transactions are highly uncertain compared to B2C transactions, thus emphasizing the importance of platform governance. Chua and Wareham (2004) and Gregg and Scott (2006) list and describe internet auction fraud types. Table 1 summarizes the types of internet auction fraud discussed in their research.

Shilling	Seller bids on own auction to drive up an item's price.
Bid shielding/multiple bidding	Auction buyer places multiple bids using different identities, withdraws high bids subsequently, and purchases an item at a low bid.
Misrepresentation	Seller deceives buyer about the true value of an item.
Fee stacking	Seller adds hidden charges to the item's price after the auction ends.
Failure to ship	Seller never sends the goods.
Failure to pay	Buyer never sends the money.
Reproductions and counterfeit	Seller advertises counterfeit goods as the real thing.
Triangulation/fencing	Seller uses stolen credit to buy from online merchant, and resells the item at an auction.
Buy and switch	Buyer receives merchandise, but switches original merchandise with inferior merchandise before refusing and returning it.
Loss or damage claims	Buyer claims the item was damaged and disposed of, and requests money back.
Shell Auction	Seller sets up an auction solely to obtain names and credit cards.

Table 1. Types of Internet Auction Fraud.

The main revenue of C2C platforms is the transaction fee. The platform charges a certain percentage of the closing price from both sides, i.e., the seller and the buyer. In most cases, a user can become a member of a C2C marketplace free of charge. The listing of products is also often free of charge. C2C platforms need to attract both buyers and sellers and increase the number of transactions to be successful. These platforms exhibit two types of network effects: a same-side effect and a cross-side effect (Eisenmann et al. 2006). Given that the cross-side effect works strongly in the C2C marketplace, increasing the number of sellers is valuable for buyers, and vice versa.

One of the key factors that attract users and increase transaction is to build trust in the platform (Gefen, Karahannna, and Straub 2003). In previous research, trust has a number of definitions. In this paper, we use the definition by Rousseau et al. (1998) which state that trust is "a psychological state comprising the intention to accept vulnerability based on positive expectations of the intentions or behaviors of another." Many researches have focused on the relationship between trust and the intention of the transaction on the internet (McKnight et al. 2002; Fogg et al. 2003; Gefen et al. 2003; Xiao and Benbasat 2003). In C2C e-commerce, trust must be established by both buyers and sellers (Jones and Leonard 2008). As Pavlou and Gefen (2004) claim, the critical service that online marketplaces provide is the creation of trust in the marketplace and reduction of perceived risk from it. The authors believe that the key to this critical service is the platform governance strategy, since this component of the platform directly solves problems regarding transaction uncertainty and promotes user trust on the sellers and the platform.

Hagiu (2014) explains the strategic decisions for a multisided platform, and states that governance rules are one of the four fundamental strategic decisions. This research claims that the rules regulating access to the platform and rules regulating interactions on the platform are the two major

categories of governance. While the governance rules proposed by Hagiu (2014) focus on the regulations, the scope of governance strategy can include broader dimensions such as feedback mechanisms and customer support processes, buyer guarantee systems, and escrow service.

The motivation for our research is to identify an effective platform governance strategy for C2C marketplaces. Our work aims to answer these questions: What types of governance strategies are adopted by the operators of C2C platforms? What type of governance is perceived to be effective by the users in C2C marketplaces? To achieve our goal, we present a case of two major C2C marketplaces that adopt different platform governance strategies, and examine how the users of each marketplace trust other users and the platform operated in the marketplace.

The rest of the paper is organized is follows. First, we describe the two different platform governance strategies, namely proactive and reactive strategies. Then, we present the case study of two major C2C marketplaces in Japan, namely Mercari and Yahoo! Auctions, and the preliminary findings from our user survey. Finally, conclusions are drawn and future research directions are identified.

Platform Governance Strategies for C2C Marketplaces

Prior research suggests that a safe and honest transaction environment is crucial to gain user trust and to facilitate increasing number of C2C marketplace transactions. The key to increase the revenue is to design the governance system in such a way that it promotes trust between the buyer and the seller as well as between the users and the platform. The fundamental means to achieve trust is the governance strategy that can be of two basic types: proactive and reactive strategies. In this paper, a proactive strategy is defined as a platform governance strategy that preempts any problems in the marketplace beforehand so that the users do not have to call customer support in the first place. The second strategy is a reactive strategy that invests in a customer support center to provide full support when a problem arises.

Grazioli and Jarvenpaa (2003) claim that to reduce the occurrence of internet deception, a comprehensive strategy must include consideration of deterrence, prevention, and detection. We labeled such strategy as "proactive strategy." Some aspects of a proactive strategy are the identity authentication of the seller, the determination of seller reputation, illegal/inappropriate listing detection, and out-of-the-platform transaction detection. Having systems for authenticating user identity and determining seller reputation in place will make it difficult for malicious sellers to settle transactions in the platform. Seller reputation systems help establish a seller's reputation (Dellarocas 2003). Buyers assess the sellers' remarks before the transaction and the feedback mechanism is useful to create price premiums for trustworthy sellers as returns to their reputation (Pavlou and Dimoka 2006). Illegal/inappropriate listing detection is often realized using text mining and machine learning techniques. An out-of-the-platform transaction is the act of finding a seller or buyer in the platform and settling the transaction outside the platform to avoid the payment of transaction fee. Given that this conduct would decrease the revenue of the platform, detecting and preempting out-of-the-platform transactions would be crucial for the platforms.

Examples of the means of reactive strategy include a mutual rating system for buyers and sellers, a customer support center, and a buyer guarantee system. Pavlou and Gefen (2004) focus on institutional mechanisms such as feedback features, escrow services, and credit card guarantees that are implemented or created by a third party to create conditions that will facilitate successful transactions. They evaluated the perceived effectiveness of such mechanisms. Giving a negative rating on a malicious buyer or seller is an effective action when problems are encountered on the platform. The customer support center is the key to solving any problems arising during the process of C2C transactions. Finally, the buyer guarantee system could solve problems such as a buyer not receiving a product or receiving a fraudulent product.

Srinivasan et al. (2002) investigate the antecedents and consequences of customer loyalty in the online B2C context. They argue that 8Cs, namely customization, contact interactivity, care, community, convenience, cultivation, choice, and character impact e-loyalty. A customer support center is related to two of these factors: contact interactivity and care. In the research, contact interactivity is operationally defined as the availability and effectiveness of customer support tools on the website, and the degree to which two-way communication with a customer is facilitated. Care is important since a high level of care exercised by a company (in our case, the operator of the platform) to minimize disruptions in customer service will lead to high e-loyalty. Although the context of the research is B2C platforms, the authors' argument applies to our interest as the relationship between the platform operator and the user can be considered as a B2C relationship.

Both proactive and reactive means of platform governance are often installed in C2C platforms. We aim to determine which strategy is considered important by the operator of the platforms, and which strategy is perceived to be more effective by the users of the platforms. In the following section, we discuss the case of two major C2C marketplaces in Japan to describe the different platform governance strategies.

Case Study

We present here the case study of Mercari and Yahoo! Auctions. The reason for selecting these two studies is as follows. First, Yahoo! Auctions is the oldest and largest C2C marketplace in Japan, and it is unreasonable to analyze and discuss a C2C marketplace without this marketplace in our context. Second, Mercari is one of the largest smartphone-based C2C marketplaces. As internet users spend more time on smartphones and less time on PCs, it is crucial to include a mobile-based C2C marketplace to address the practical problems in today's business environment. According to Nielsen, the number of users who accessed C2C marketplaces in 2014 was 15.2 million via PCs and 15.5 million via smartphones. In 2016, the number of users who accessed C2C marketplaces via PC decreased to 11.5 million users, whereas the same number for smartphone-based access increased to 26.6 million. The average number of access per user is much higher for smartphone users (32 accesses per month) compared to PC access users (11 accesses per month). This indicates that users accessing C2C marketplaces are shifting from PCs to smartphones, and Mercari captures this emerging market. In sum, these two services boast the largest user base among the C2C marketplaces in Japan, and provide us great opportunity to gain insight into this topic.

Mercari

Mercari Inc. was established in February 2013 by Shintaro Yamada in Japan. The company released a free C2C resale shopping app, Mercari (iOS and Android) in November 2013. A month after the release, the number of downloads reached 1 million. Mercari quickly gained a large userbase that reached 3 million in May 2014, 5 million in September 2014, and 10 million in January 2015. One of the reasons for this drastic growth in the number of users is the use of TV commercials. As of December 2016, the number of downloads reached 35 million.

Their free mobile app allows sellers to offer a wide variety of items, such as apparel, accessories, and games (Figure 1). This app can be considered as a two-sided platform consisting of buyers and sellers. The easy-to-use and intuitive interface of the app allows buyers and sellers easy, frictionless transaction. The user can become a seller by simply uploading the photo of the product along with a few details. According to Mercari, the listing process takes approximately three minutes and it is free of charge.
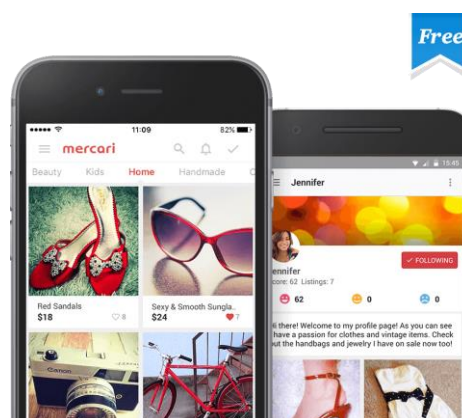
Source: www.mercari.com

Figure 1. Screenshot of a Mercari transaction.

Furthermore, Mercari offers easy shipping experience. The app has a built-in shipping feature so that the user can print the label and simply drop it in the mailbox. When the transaction is complete, the

buyer pays the price of the product and the commission for the operator. Mercari takes 10% transaction fee from the seller as well.

For platform governance, the company employs various tactics. To protect the user, the company provides an escrow service that holds the payment until the buyer confirms receipt of the purchased product. It also has a buyer guarantee system that covers the cost of purchase if the user does not receive the product. To maintain a healthy accountable platform, the company uses a 3-point scale mutual rating system (good/normal/bad) for both buyers and sellers.

Yahoo! Auctions

Yahoo! Auctions was launched in 1999 as an auction service of Yahoo! Japan and is one of the oldest and largest C2C platforms in Japan. To use the service, the user needs to have a Yahoo! Japan ID. Given that Yahoo! Japan has a large customer base, the users and the number of listings increase steadily.

A user can list a product by becoming a Yahoo! Premium member with a monthly membership fee of 462 JPY. A user can become a bidder free of charge, but is required to prove his/her identity when bidding. It is an open ascending price auction; therefore, the transaction does not close immediately. The company takes 8.64% of the auction price as the transaction fee. Figure 2 is the screen shot of the web page, which has a 5-point scale user rating system.

Yahoo! Auctions started as a web service, but Yahoo! Japan has adapted to the recent trend of users accessing the internet through smartphones by offering smartphone apps. Yahoo! continues to upgrade its C2C commerce service and has launched a nonauction-style C2C e-commerce in February 2017. It is a service offered to the users of PCs and smartphones, and unlike the existing auction service, a seller can list an item without becoming a Yahoo! Premium member. In addition, a seller determines the price of the item at once unlike in ascending auctions.

Table 2 summarizes the features of the two platforms. Mercari and Yahoo! Auctions are fundamentally different given that although Yahoo! Auctions started as a nonauction-style service recently, it has established its position as an auction platform whereas Mercari is not. However, we proceed to compare these two services for three reasons. First, although they are different with regard to the transaction process, they both belong to the category of C2C marketplace. The second reason is user perception. Both are in the same consideration set when users want to buy or sell the product to other users online. The third reason is the operator's perception. Through the interview, we found that the two operators see each other as a competitor. Finally, the recent new service offered by Yahoo! Auctions is very similar to Mercari in terms of the price determination process and devices used for access.

Figure 2. Screenshot of a Yahoo! Auctions transaction.

To understand the two distinctive C2C marketplaces in Japan, we interviewed the directors of both services. The interview with the director of Mercari was conducted in June 2016, and the interview of the manager of Yahoo! Auctions was conducted in September 2016. Through our interviews, we found

that both services acknowledge trust as the key factor of success and adopt different approaches to secure the governance structure in the marketplace.

Table 3 summarizes the list of means of the governance system in the two marketplaces. As described in the previous section, the six items in the first column of the table are considered as the means of a proactive strategy, and the last three items can be labeled as the means of a reactive strategy.

Through the interview, we found that Mercari adopts a reactive strategy because the company invests heavily in customer support, and Yahoo! Auctions adopts a proactive strategy because the company place emphasis on preempting problems in the marketplace.

	Mercari	**Yahoo! Auctions (auction style)**	**Yahoo! Auctions (flea market style)**
Price	Determined by seller at once	Ascending	Determined by seller at once
Fee	10% transaction fee from seller	Monthly membership fee, transaction fee from seller	transaction fee from seller (10% for nonmember, 8.64% for premium member)
Duration of listing	Not determined	7 days (can be extended 3 times)	7 days
Payment	e-payment system	Exclusive payment system, bank transfer, postal transfer	Exclusive payment system
Payment timing	After the arrival and inspection of the product	After the arrival and inspection of the product	After the arrival and inspection of the product
Service Offering	Mobile App, web	Mobile app, web	Mobile app, web

Table 2. Basic features of Mercari and Yahoo! Auctions.

	Mercari	**Yahoo! Auction**	**Past literature**
Identity authentication of seller		✓✓	Suh and Han (2003),
Reputation system for seller	✓	✓✓	Gregg and Scott (2006), Pavlou and Gefen (2004), Ba and Pavlou (2002)
Illegal/inappropriate listing detection	✓✓	✓✓	Chiu et al. (2011)
Text mining	✓✓	✓✓	Pavlou and Dimoka (2006)
Fraud detection using machine learning	✓✓		Chiu et al. (2011)
Detection of out-of-the platform transaction	✓✓	✓	
Mutual rating system for buyer and seller	✓✓	✓✓	Pavlou and Gefen (2004)
Customer support	✓✓	✓	Srinivasan et al. (2002)
Buyer guarantee	✓✓	✓	Pavlou and Gefen (2004)

✓: measures partly taken; ✓✓: measures taken already.

Table 3. Governance system features of Mercari and Yahoo! Auctions.

User Survey

Data Collection

In this section, we describe the result of our preliminary survey of the users of C2C platforms. Using the panel data of an online research company, we screened the panel members who had used Mercari or Yahoo! Auctions in the past three months. We obtained 455 user samples who responded that she used Mercari, and 740 samples who responded that she used Yahoo! Auctions, and 100 samples who responded that she used both services. Excluding the users who use both, we randomly selected 155 samples from Mercari users and Yahoo! Auctions users, and conducted the user survey in October 2016.

The respondents were asked about the usage of the platform such as the usage frequency, types of usage (mainly to buy item/mainly to sell item/use for both buying and selling), category of products that they sell/buy, price of the product that they sell /buy, length of customer history, and demographic information such as age and sex. The respondents were also asked about the degree of trust on the seller/buyer and platform, and the reason for the trust. Finally, the respondents answered questions on the disposition to trust. The demographics of the users of two services were very different. Mercari users were 86.5% female, whereas that of Yahoo! Auctions users were 34.8%. Most of the Mercari users were in their twenties and thirties (72.2%), and the users of Yahoo! Auctions were mostly in their forties and fifties (54.8%).

Results

First, we examined the disposition to trust by following the previous research on C2C platforms (McKnight et al. 1998, McKnight et al. 2002). To examine the disposition to trust, we used the uncertainty avoidance index (UAI) score (Hofsted 1980). The UAI expresses the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity. We considered that a high UAI score indicates a risk-averse user, and thus less disposition to trust. The mean rank of the UAI for Mercari users was 163.45 and that for Yahoo! Auctions users was 147.55. No statistical difference was found in the two groups (Mann–Whitney U-test; $z = -1.578$, $p = 0.115$ two-sided). The degree of disposition to trust of the users of Mercari and Yahoo! Auctions is not statistically different.

Second, we investigated which platform governance strategy is perceived to be effective by the users. In the survey, the respondents were asked to "select the effective means of solving a problem." Figure 3 summarizes the results. As shown in Figure 3, the top two were "Guarantee system" and "Customer support via telephone." This indicates that reactive rather than proactive means of platform governance is considered effective by users of both marketplaces, and there was no difference in the two groups.
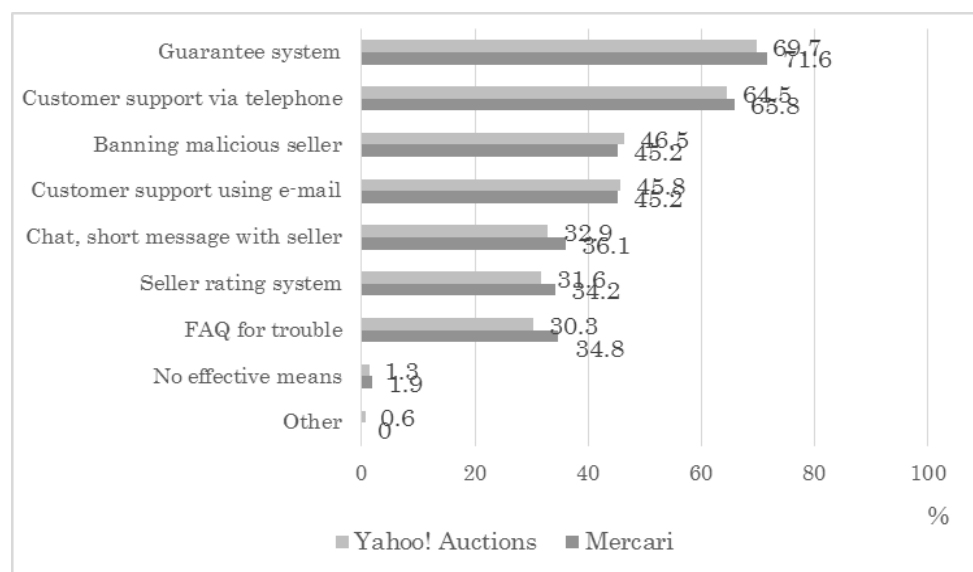

Figure 3. Effective means for governance in C2C marketplace (MA).

Third, we investigated the structure of trust. In the survey, we asked the respondents the reason why a user trusted a buyer/seller. The result, shown in Figure 4, indicates that the top reason that makes a user trust a buyer/seller is the seller's reputation (67.1% for Mercari users and 64.2% for Yahoo! Auctions user). Consistent with the past research, a rating system of the seller is an effective means of building trust in the C2C marketplace. One of the interesting findings of this survey is that the reason of trust is different for the two platforms. Mercari users trust the buyer/seller because they trust the platform operator because of the safe transaction environment they provide (46.15% for Mercari users and 33.11 for Yahoo! Auctions user). On the other hand, Yahoo! Auctions users trust the buyer/seller because of the attributes of buyers/sellers, i.e., the expertise in the product and C2C transactions (20.27% for Yahoo! Auctions users and 7.69% for Mercari users). The result of the chi-square test presented in Tables 4 and 5 shows the statistically significant difference of the two groups.
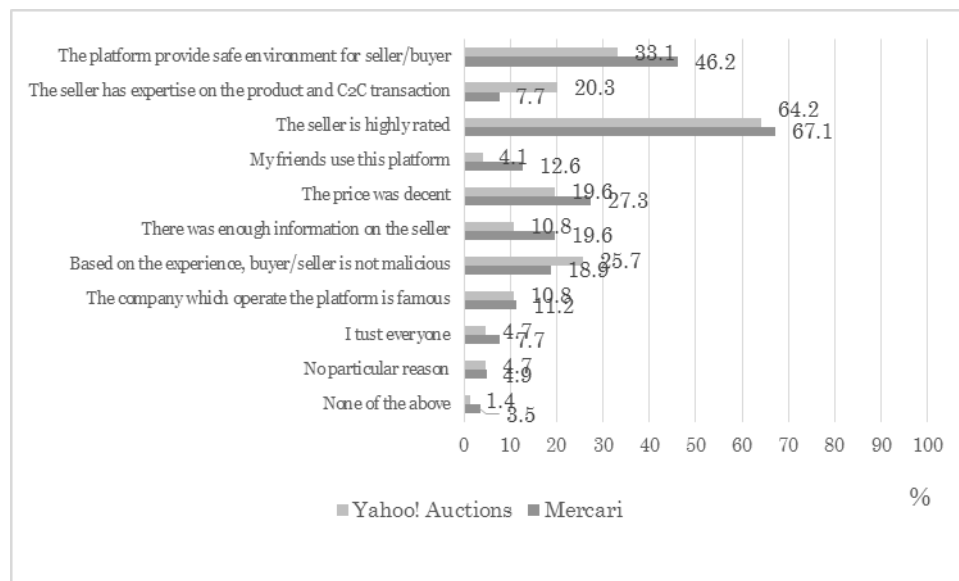

Figure 4. Reason for trusting the buyer/seller (MA).

Table 4. Response for "The seller has expertise on the product and C2C transactions."

	No	Yes
Mercari	132	11
Yahoo! Auctions	118	30
Total	**250**	**41**
chi-square = 9.506, df = 1, p = 0.002		

Table 5. Response for "The platform provides a safe environment for the seller/buyer."

	No	Yes
Mercari	77	66
Yahoo! Auctions	99	49
Total	**176**	**115**
chi-square = 5.179, df = 1, p = 0.023		

Conclusion and Discussion

In this paper, we focused on the platform governance strategy that helps build user trust in a C2C marketplace. Our findings through interviews indicate that both Mercari and Yahoo! Auctions see trust as a crucial component for the success of the C2C marketplace; Mercari emphasizes on a reactive strategy whereas Yahoo! Auctions focuses on a proactive strategy. The preliminary findings from our user survey indicate that users perceive a reactive strategy as more effective compared to a proactive strategy. Furthermore, the trust structure is different in the two marketplaces. Mercari users trust the platform operator, and Yahoo! Auction users trust the sellers rather than the platform operator.

Most of the literature on online fraud focuses on proactive strategy, which includes deterrence, prevention, and detection of internet fraud. However, our findings suggest that users perceive reactive strategy as more effective in C2C marketplaces. One possible reason is the shift in the device users adopted for accessing the internet. Easy access from smartphones allows consumers with low internet literacy to come into C2C marketplaces. These consumers are less likely to detect fraud by themselves, resulting in a higher risk of a user becoming a victim, and thus rely more on platform operators after experiencing online fraud.

Future research would include further investigation into the trust structure in the C2C marketplace and the causal relationship between the degree of trustworthiness and success of the C2C marketplace. The result of the user survey suggests that the transaction frequency is higher for Mercari users. However, the average price of the transaction is higher for Yahoo! Auctions users. Studying the relationship among trust, transactions, and the success of C2C marketplaces will be our next step for a better understanding of the C2C marketplace. Another research opportunity is international comparison of trust level in C2C marketplaces. The Japanese consumer is considered to be one of the most risk-averse consumers in the world, and it would be valuable to ascertain if the result of our paper applies to other cultural contexts.

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