

Building Large-Scale Online Dispute Resolution & Trustmark Systems

By

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1. Overview: The SquareTrade Experience

SquareTrade (www.squaretrade.com) was founded in mid-1999 and since then has used online dispute resolution (ODR) in over 800,000 disputes in over 120 countries. In addition, SquareTrade has integrated ODR into the Internet's largest trustmark program for online small business sellers (the SquareTrade Seal). These efforts in developing online dispute resolution, verification and trustmark systems and processes to support online transactions are continuously being expanded including use for disputes in more traditional offline contexts.

SquareTrade first partnered with the world's largest online marketplace, eBay, to handle disputes between buyers and sellers around the world. As a more traditional offline application of ODR, SquareTrade has worked with the California Association of Realtors to resolve home real estate disputes between buyers, sellers and realtors. SquareTrade's technology has been designed to leverage concepts employed in offline ADR to create the Internet's largest ODR system, making SquareTrade also one of the largest mediation providers worldwide online or offline.

SquareTrade's mission is to "build trust in transactions" and to encourage online commerce by reducing risk for buyers and sellers. SquareTrade's endeavors to enhance trust through the SquareTrade Seal, followed up by a safety net of easy access and pre-commitment by seal members to ODR. The SquareTrade Seal (SquareTrade's Trustmark) is currently displayed by tens of thousands of business members in over 80 countries who pre-commit to participating in dispute resolution and to delivering high integrity standards of selling.¹

Online dispute resolution is the most appropriate process for assisting consumers in problems arising out of online transactions. These transactions often occur between persons in different cities or countries and in marketplaces where sellers are primarily small and medium size businesses. At eBay's online marketplace for example, over ten million items are for sale at any one time and millions of transactions are completed each week. In such environments, SquareTrade assists parties who have no other practical options for dispute resolution and, in so doing, enhances trust and reduces the sense of risk that is felt by potential purchasers.

2. Context: Online Need for Trust & Recourse

Trust was an early casualty as ecommerce grew and buyers and sellers moved from a relationship-oriented offline world to a transaction-based online world. The Internet's anonymous nature and lack of geographic boundaries, coupled with time delays between payment and exchange of services/goods, created considerable impediments to online trust. In turn, such impediments fostered fear of online transactions and increased the incidence of disputes.

Online merchants are often small, "no-name" companies or individuals with little to no brand-recognition. Purchases may involve a time delay between payment and the receipt of services or products. Sellers may often lack the resources (skill, time, employees and technology) to provide the quality and speed of customer service that consumers now expect dealing with larger retailers. As a result, buyers may experience a high perceived risk of fraud in an online setting

¹ SquareTrade was awarded the CPR Institute of Dispute Resolution's 2002 Outstanding Practical Achievement Award and was selected by the World Economic Forum as one of the top 100 technology pioneers in 2000 and 2001 (recognizing excellence in deploying new technologies to address global social issues).

Our surveys have shown that access and commitment to ODR are a top concern in consumer willingness to buy or bid on higher priced goods at eBay. After participating in SquareTrade's dispute resolution process, over 80% of buyers said that they would buy again from the marketplace or seller. In addition, consumers who successfully resolve disputes are more active buyers and sellers in marketplaces post dispute relative to their peers who did not have the opportunity to resolve a dispute with the other party. Our surveys have confirmed that parties who complete a successful dispute resolution process are, on average, likely to engage in roughly 15% more transactions post dispute than a comparable group of disputants with without successful ODR.

a. Traditional recourse options fall short

Credit cards can provide significant consumer protection through "chargebacks" and refunds. Such practices; however, are generally limited to the United States and parts of Europe. Further, credit card usage is generally limited to large retailers, who already offer strong customer service options. Chargeback protection may also only allow "binary" results of "keep the item/return the item." SquareTrade's experience further demonstrates that less than a third of disputes it has encountered are such clear cut cases where credit card chargeback rights would be effective for consumers, especially with ambiguities such as:

- "Quality" discrepancy over antiques, used items, performance of equipment (like a used car)
- Responsibility of return shipping costs and restocking fees
- Reduced value of purchases when items are not received "on time"(e.g., birthdays, holidays)

Pursuing litigation through the traditional legal system is often prohibitively costly, as well as geographically constrained and slow relative to the value of most online disputes. To justify the time commitment and expense, most businesses do not initiate legal action for transactions unless they exceed tens of thousands of dollars. Further, jurisdictional ambiguities complicate the effectiveness of applying "the local law" when different laws and legal frameworks apply to buyer and seller due to geographic differences, particularly with international transactions.

The US Federal Trade Commission, the US Department of Commerce and the European Commission have all broadly acknowledged the dilemmas and real limits of traditional enforcement and recourse mechanisms, particularly in small-scale business to consumer transactions. Recognizing this, they have come to endorse use of self-governance and private sector processes of dispute resolution as a first mechanism of recourse in e-commerce. SquareTrade represents the largest deployed system meeting these needs.

b. Value, volume and flexibility

i. Lowering barriers and facilitating access in offline disputes

SquareTrade has recognized that ODR can enhance and facilitate the use of ADR in traditional settings. For example, traditional mediation can be expensive by using facilities and requiring travel, expenses that are passed on to disputants. Traditional ADR inevitably requires material non-cash costs of significant time to schedule meetings that meet multiple parties' needs or the availability of a facility or mediator. ODR reduces many constraints of time and distance, thus allowing a process of dispute resolution that can be more convenient as well as less costly.

ii. Scale and volume

SquareTrade has handled over 800,000 disputes since February 2000. Perhaps more impressive has been the steady increase in demand as awareness of SquareTrade increases: as of mid-2003, SquareTrade handles over 50,000 new disputes a month and concurrently manages over 20,000 active cases. Frequently, SquareTrade addresses disputes earlier than traditional methods, by facilitating easy access as part of an online transaction. The majority of all cases filed with SquareTrade reach settlement using SquareTrade's self-service negotiation technology described below. High success rates rival offline metrics, with over 80% success rates in online mediation and 98% follow-through after agreement.

iii. Cost and flexibility

Dispute values have ranged from under 1 USD to over 1 million USD. SquareTrade's ODR technology enables the majority of all participants who achieve successful resolution to do so through direct negotiation, at no cost to parties*. Even when a mediator is assigned in related cases, parties only pay \$20 to avail themselves of a professional mediator*.
(*for disputes filed within eBay's marketplace as of mid-2003)

The average dispute is resolved within two weeks. As of mid-2003, such disputes have involved persons in over 120 countries participating in five languages (English, Spanish, German, Italian and French) (See Figure A). Follow-up surveys indicate that over 80% of buyers and sellers are satisfied with their experience.

iv. Adopting ODR in offline settings

Both the California and Illinois Associations of Realtors have partnered with SquareTrade to offer buyers, sellers and realtors an online mediation option. These represent the tip of the iceberg of new opportunities to provide an online dispute resolution alternative to otherwise slow, costly and often intimidating traditional dispute resolution processes in offline settings.

Fig A. SquareTrade ODR used Globally

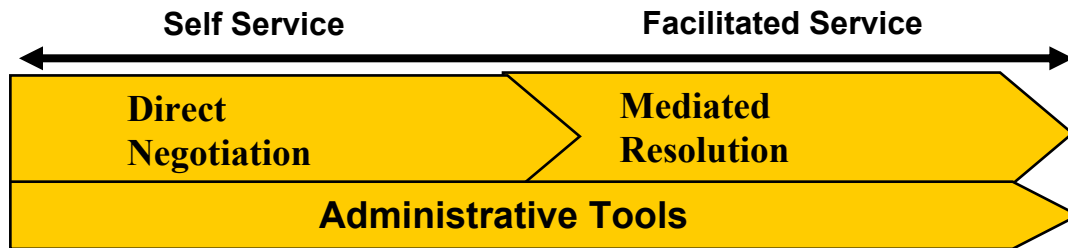


Fig B. SquareTrade Seal Membership Around the World



3. The SquareTrade Process

SquareTrade's dispute resolution model was designed to deploy processes of conciliation, mediation and the option of arbitrations or recommended resolution, both as a facilitated service as well as leveraging technology to create a self-service means to help parties solve problems on their own. These processes are based on principles such as clarification, compromise, consensual participation, neutrality, and confidentiality. The model incorporates a two-stage process, beginning with Web-based technology-supported negotiation processes and escalating, if necessary, to professionally facilitated resolutions (primarily mediation).



In designing this system, it was recognized that accessibility, affordability and scalability would require deploying technology as much as possible, not only to streamline case development and management, but to create new means of applying dispute resolution in a self-service manner. Broadly labeled, Direct Negotiation is the first step in resolving a dispute in SquareTrade's system. Direct negotiation provides an online automated resolution tool that enables parties to articulate, vent, see opportunities for compromise and hopefully achieve self-settlement. If the parties fail to reach a resolution during this step, the resolution can be facilitated by a professional human third party, primarily deploying traditional mediation, but all online. The solution also includes an administration component to provide such things as: mediator training, mediation support, quality control to mediators, customer support and case management.

**Market-based
Trust Framework**

Escalating ODR PROCESS



Guiding ODR Principles:

- **Easy Access**
- **Conciliation Focus**
- **Neutrality & Confidentiality**

a. Sample SquareTrade ODR Case from eBay's Marketplace

eBay, the world's online marketplace™, hosting millions of successful transactions each week in both auction and fixed price formats. Sellers can range broadly in size from individuals to small businesses to large corporations; the majority of sellers are smaller and unbranded in nature.

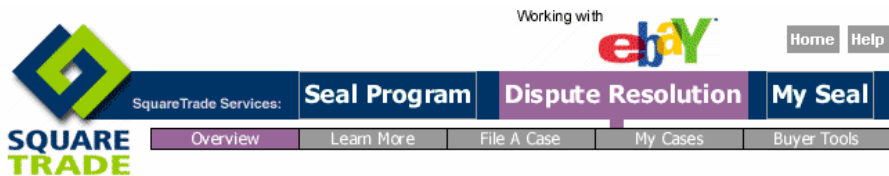
While the majority of transactions go smoothly, disputes can and do occur, just as they do in the offline world. eBay partnered with SquareTrade in order to provide a neutral and globally accessible dispute resolution service for disputes between buyers and sellers (not between users and eBay). In this context, SquareTrade implemented both a pioneering and practical online system to prevent and resolve disputes and to provide trust and safety within a global online marketplace.

eBay's user interface directs users to SquareTrade at relevant points throughout eBay's global marketplace, where users logically look for a solution in the event of a dispute or fear of fraudulent activity. eBay also promotes access to SquareTrade's dispute resolution as a key component of building overall trust in their marketplace.

The following is a generalized overview of a typical case flow:

1. SquareTrade first offers users a means to articulate their issue and attempt to resolve it directly with the other party with the help of SquareTrade's technology. There is no cost to the user for this. Links to the SquareTrade complaint form can be found throughout eBay's marketplace, examples including: when attempting to file a fraud claim with eBay, when clicking on "safe trading tips" and "buying safely" links.

(e.g., <http://www.ebay.com/help/confidence/problems-dispute-resolution.html>)



Online Dispute Resolution (ODR)

2. The filer is guided through a customized complaint filing process that helps her identify the exact issue in dispute and what the filer would want in order to resolve the complaint. The filer follows a customized process, dynamically presented based on setting, role of filer and other factors. For example a buyer complainant follows a different process than a seller complainant, and disputants are presented with different processes in eBay than in California Association of Realtors. This provides a high degree of user credibility, recognizing a process tailored to their needs. This also allows system extensibility in handling many different dispute types while using the same underlying engine of managing disputes.

Step 1: Your Background Details

About you:

*** Title:** *** First Name:** *** Last Name:** * required

*** Email:** *** Confirm Email:**

*** Create new or enter existing password:** (5 - 20 characters) *** Confirm password:**

Filing a case takes 3 easy steps
This process normally takes 10 minutes to complete.

Transaction details:

*** Date of transaction:** *** eBay item # under dispute:**

*** Was the item paid for?** Yes No
If **Yes**, enter **total amount paid** including shipping costs:
Currency: **Amount:** **Form of payment:**

*** Basic item description:** (you will explain the dispute later)

*** Your eBay User ID:** [Why do you need it?](#) *** Your role in the transaction:**
 Buyer Seller

*** Your eBay Password:**

Common Filing Concerns

[Over 80% of SquareTrade case filers said they would use the service again. Learn more >](#)

[It is free to file and there is no obligation! Learn more >](#)

[SquareTrade can help you get feedback removed! Learn more >](#)

[All of your filing information is confidential. Read our Privacy Policy >](#)

[Learn about our User Agreement >](#)

[What is mediation?](#)

[What can I do if my case is not resolved?](#)

[What if I don't remember my eBay password?](#)

[Why do you need my eBay ID and password?](#)

Authoritative structure

Tailor ODR Process

3. The process is database driven on the precedence and experience of thousands of prior cases and resolutions. This allows the system to present the most common dispute types and respective “reasonable resolutions” correlated to each dispute type. This helps achieve several key principles in mediation including getting parties to recognize fairness and compromise and helping parties to translate emotion into fact or clear requests.

Step 2: Tell Us About the Problem

Type of problem:

* (check all that apply)

Feedback Related

I would like both of our feedback removed.

I would like only the feedback that was left for me removed.

I would like only the feedback that I left for the other party removed.

Negative feedback being threatened.

Merchandise Related

Payment sent but merchandise not received.

Damaged merchandise.

Incomplete merchandise.

Received merchandise late.

Merchandise different than described.

Payment Related

Returned the merchandise but no refund received.

Shipping cost discrepancy.

Other Issues

Bid shilling.

No response to my message.

- Issue identification is database and precedence driven
- Help parties articulate
- Allow “venting” to turn emotion into facts

The process helps clarify the filer’s position(s) and settlement request(s). The dispute information is also captured in a structured fashion to help the system achieve many functions. This helps parties see areas of agreement by splitting a problem into sub-issues. The system can also use data to analyze disputes and associated resolutions to improve the system or help the marketplace learn how to address where disputes arise in the first place.

Step 3: Identify Potential Solutions

You have stated the problems listed below:

*** What would you consider as a potential resolution or settlement for these problems?**
Check all that you would be willing to consider as a resolution. This information will be seen by the other party.

I would like both of our feedback removed.

The other party already agreed to this removal and there is nothing else remaining to occur.

We have agreed to the removal but we are still finalizing the completion of our agreement.

The other party has not yet agreed to the removal but I would like to discuss how to resolve.

Other. Please enter additional details.

Damaged merchandise.

I would be willing to accept a full or partial refund. Please enter the amount. \$

I would like the other party's help to file a shipping insurance claim if possible.

I would like to return the item and I will pay for return shipping.

I would like to return the item and have the other party pay for return shipping.

I would like to exchange the item for another one and would like the other party to pay for the return shipping.

I would like to exchange the item for another one and I will pay for return shipping.

- Solution suggestions are database and precedence driven
- Focus on Fairness & Compromise

- All information relating to a case is stored in a password-protected case page hosted by SquareTrade. This further builds confidence to users of the confidentiality of the process. Parties can access multiple cases from this same interface.
- Once the party completes the submission form, SquareTrade contacts the other party via an automatically generated email and provides instruction on responding to the case. SquareTrade has a sophisticated communication engine to remind parties to participate, to escalate when they do not respond and to alert mediators or other support staff to address the case. This provides a core component of managing thousands of disputes simultaneously and ensuring they proceed accordingly.
- The process uses asynchronous communication so that all parties can participate at their own convenience. Email is only used to notify a party that progress has been made, which links them to the password protected case page where they can respond and move the case along.
- The respondent reviews the complaint, and is guided through a response process, which includes describing what they would be willing to offer to resolve each issue.

Step 3 - What potential solutions would you consider?

* Check all that apply

The ★ indicates solutions requested by the filer.

Negative or neutral feedback was posted about me.

★ I would agree to removing the feedback.

Other. Please enter additional details.

Damaged merchandise.

I am willing to give a full or partial refund. Please enter the amount. \$

★ I would be willing to help file a shipping insurance claim.

★ I would be willing to accept the returned item if the filer pays return shipping.

I would be willing to accept the returned item and I am willing to pay for return shipping.

I would be willing to exchange the item and I am willing to pay for return shipping.

I am willing to exchange the item for another one if the filer pays return shipping.

Other. Please enter additional details.

Incomplete merchandise.

I am willing to give a full or partial refund. Please enter the amount. \$

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- Disaggregate issues
- Help articulate
- Focus on Fairness & Compromise

- Both parties can further negotiate through an asynchronous communication tool. The tool allows parties to add comments and then the software automatically emails the other party to return to the case page for their response.
- This structured communication, creates a secure written record that parties can refer to in their negotiations or if unsuccessful, can be passed onto the mediator as case background.

The SquareTrade Direct Negotiation system reduces negotiating time and cost for parties involved in simple or complex cases by putting them in control of a process that quickly clarifies tradeoffs, recognizes party satisfaction on all types of negotiation issues, and generates optimal solutions. This process allows the parties to base decisions on more complete and more thoroughly evaluated information, leading most often to better-negotiated outcomes. The service accomplishes several benefits:

- Negotiating parties are networked with one another, no matter where they are located
- Parties can easily exchange offers and counteroffers via the internet at their own convenience
- Private and confidential data is kept safe and secure on a password - protected Case Page
- Precedence-based data specific to each problem type is dynamically served to each party to aid in helping parties reach a mutually satisfactory resolution
- The process is less expensive, faster, and more efficient than other resolution methods
- The process effectively facilitates a high level of self-settlement, with the majority of SquareTrade cases settling in Direct Negotiation

Direct Negotiation

Welcome Steve Sony ...

New messages awaiting your response:

June 3, 2003
at 8:00 PM
From: steve@squaretrade.com

Yes but I barely dropped it. I figure you should design your computers to be dropped since they are mobile computing devices

You may communicate with the other party in your case by entering a message below.

Please enter your message in 4,500 characters or less.

Please refer to your product warranty guidelines.

We would like to offer you a discounted screen replacement of \$300. This is a 50% discount. When including labor this will be below cost for us as to accommodate your issue.

4266 Characters remaining.

post message

Please keep in mind that all communications in this process are confidential. Please refer to the [User Confidentiality Agreement](#) for details.

Sender	Date	Message
steve@transecure.com	Tue, Jun 03, 2003 7:58 PM	Unfortunately our returns policy does not cover misuse such as you dropping your computer
steve@squaretrade.com	Tue, Jun 03, 2003 7:39 PM	I don't think it is fair that you will not replace my computer screen at no cost to me. I hardly dropped it and the thing broke. What kind of product is that

[back to the Case Page](#)

Mediated Resolution: If the parties cannot resolve their dispute through Direct Negotiation, either party can initiate mediation. A case is assigned to one of over 150 mediators in 10 countries, fluent in 8 languages. The mediator uses SquareTrade's online system to train in ODR, conduct dispute resolution, and to interact and receive coaching as required from SquareTrade's dispute resolution specialist support team:

- A SquareTrade mediator is assigned to the case based on dispute type or specific expertise (e.g., language needs, real estate expertise)
- When consensus is reached the mediator will prepare a resolution agreement, which both parties must click to accept.
- In some cases, the mediator can ask parties if they would like the mediator to make a recommended resolution.
- Cases may be re-opened in the future if for whatever reason a party has not fulfilled their obligation in the resolution agreement, or if parties decide to re-engage at a future date
- Mediated cases are on average resolved within two weeks from initial filing. This represents a dramatically more efficient process than any alternative. Parties may log in every day or two to spend a few minutes on their case, at their convenience.

Choose Mediation

Continue in Negotiation

My SquareTrade Case 1251663570

You are using SquareTrade's Direct Negotiation tool to discuss issues and possible solutions.

WHAT WOULD YOU LIKE TO DO NEXT?

<input checked="" type="checkbox"/> BRING IN A PROFESSIONAL MEDIATOR Professional mediators help settle your case. Over 80% success rate!	<input type="checkbox"/> Conduct the Case Yourself (Direct Negotiation)
	READ / SEND MESSAGES
	Send Evidence
	Extend Case Continue the case for 60 days.
	Close Case If a resolution has been reached.

DETAILS OF MY CASE

Case Number:	1251663570
Order Number:	124560
Case Filed On:	Tuesday, June 03, 2003
Who Filed the Case:	Steve Abernethy <steve@squaretrade.com> buyer
Who's the Respondent to the Case:	Steve Sony <steve@transecure.com> seller
Description of Goods:	Sony VAIO Z1 laptop
Dollar amount of case:	\$2250
Transaction Date:	Thursday, January 23, 2003

CASE STUDY OF ONLINE DISPUTE RESOLUTION IN E-COMMERCE

True Story Case Study: The Musty Leather Chair

John, the buyer, who lives in NY purchases an \$800 leather chair on eBay, and discovers upon receipt that it has mildew and smells bad. John emails Claire, the seller, resident of Kansas, who refutes any issues and refuses a refund. John has very few options prior to SquareTrade but to pursue legal action in small claims court 1500 miles away in Kansas.

The SquareTrade solution

John can now file a dispute online with SquareTrade. John is directed from eBay to SquareTrade's site where he first defines the problem in an automated direct negotiation tool. Claire is automatically notified via email and is also directed to a password protected "case page" where she is able to clearly see the problem and what John wants. Claire and John make several back and forth attempts to seek resolution, all communication captured in the secure case page. They are still unable to agree.

John next clicks to request a professional SquareTrade Mediator, Mike, who helps John & Claire identify many causes for the issue (all done online). For example, Mike helps them recognize that maybe the mildew developed during shipping, or the odor in the chair was undetectable by Claire because purchased in an outdoor market.

Settling It

Mike encourages a new option: "Get the chair cleaned", pleasing John who wants to keep the chair and Claire who still makes a profit and avoids "negative feedback," (eBay's essential reputation system). Mike finalizes a legally binding settlement agreement and Claire sends John \$100 of the \$150 cleaning costs and the case closes, only 20 days after filed.

Online Solution to Online Problem

This case shows the benefits of SquareTrade's online dispute resolution:

- **Quick & convenient resolution:** All online with no scheduled meetings.
- **Personally tailored resolution:** Not just "return the item" or "right and wrong"
- **Curb negative emotions:** Moved beyond blame and hostility.
- **Good feedback:** Both parties maintain their good eBay user reputations.
- **Low cost:** No other solution available, especially across geographic distance.
- **Customer Retention:** John was so satisfied with Claire and eBay, that he went back and bought a 30-foot camping trailer on eBay (a true story).

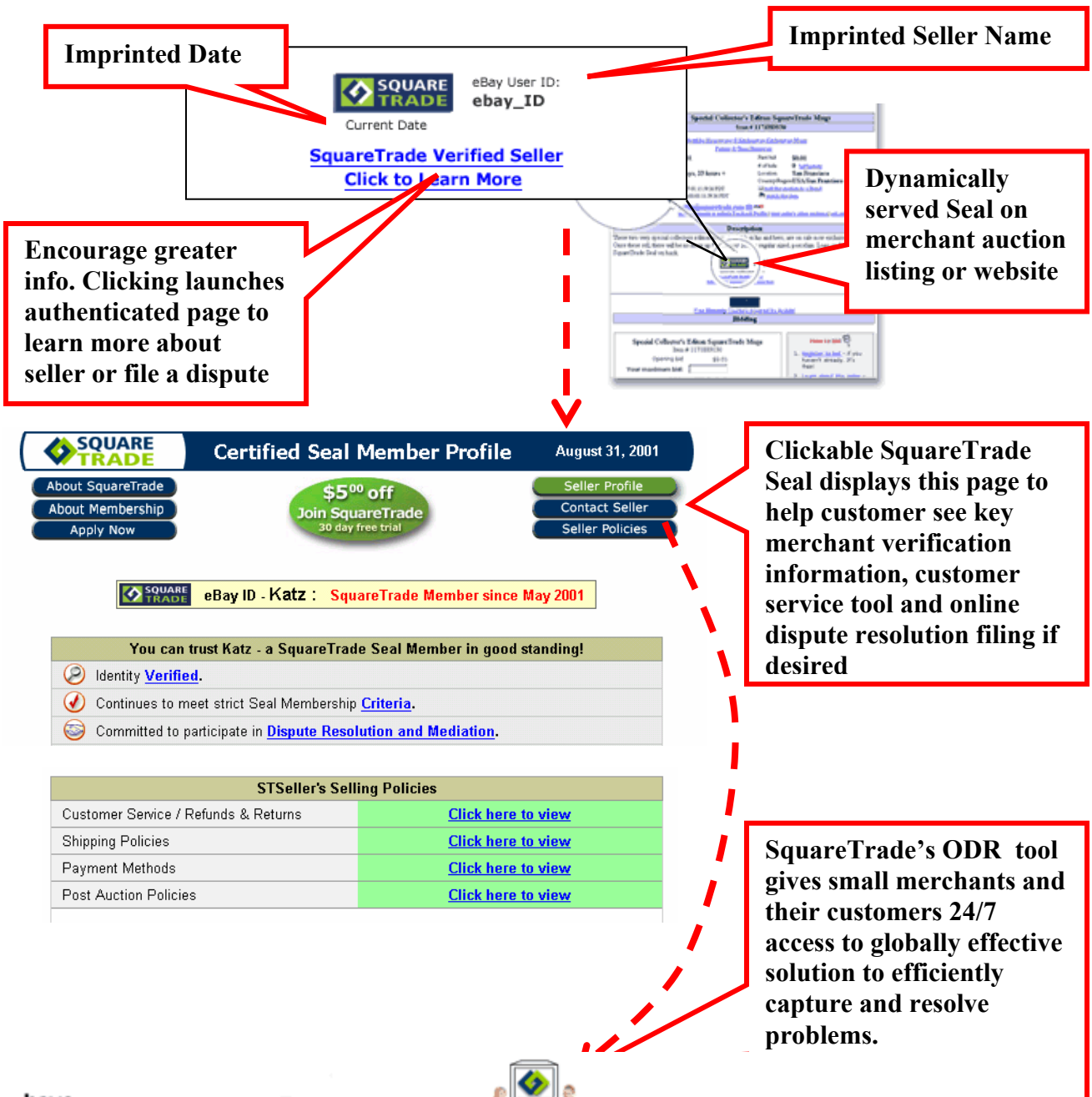


2. The SquareTrade Seal Program is an easy way for buyers to recognize good sellers. The program approves online merchants by verifying the seller's identity and credential and sellers commit to certain selling standards including agreeing to resolve disputes. SquareTrade then monitors their performance through marketplaces transaction behavior as well as using their dispute resolution system to monitor dispute activity and participation.

SquareTrade has developed a method allowing the seal to be dynamically displayed with additional authenticating functions such a current date and the sellers's ID or business name as the seal which is displayed on the seller's website or auction listings. The seal is retractable or its appearance can change based on a member's status, since it is centrally controlled by SquareTrade and dynamically served. When clicked, the Seal generates a centrally hosted series of information pages and customer service functionality, that gives a consumer key confidence building information about the seller's verification, contact details, policies, etc. Sophisticated risk management technology tracks all Seal Members

The seal program has already been adopted by tens of thousands of sellers in over 80 countries , representing an annual run rate of over \$1billion in seal member sales. Analysis shows an average increase in sales of over 15% after seal members display the seal on their auction listings (based on weighted average of a full year of user data comparing the month prior to use to the first month of use of the Seal in item listings). Moreover, seal members receive 45% fewer disputes than prior to adoption (based on study on showing a 45% drop in negative feedback received post-use of the SquareTrade Seal on eBay)

Illustration of SquareTrade Seal and Linkage to ODR



4. Summarizing Proven Benefits & Extensible Innovations of SquareTrade's ODR System and Seal Program

Use of technology and new ODR processes to extend the value of ADR:

- **Extending the reach and meaningfulness of ADR**
 - Making ADR more affordable and practically accessible to a wider range of disputes (e.g., value of dispute, location of parties, language barriers of parties)
 - Practically using ADR and conciliation as a solution to disputes across many jurisdictional dilemmas associated with e-commerce (unproven until SquareTrade)
 - Furthering the acceptance and use of ADR & mediation internationally (reaching use in over 120 countries)
 - Making "local" mediators "global"
- **Creating self-service direct negotiation functionality** to resolve disputes sooner, quicker and at low to no cost to consumers
- **Using precedence based technology and use of the computer screen** to help parties better articulate a dispute and see "reasonable" desired outcomes based on similar transactions of a given type (e.g., "item late", "item different from described")
- **Providing easier access to ADR** through the asynchronous nature of participation allowing parties to engage in dispute resolution from anywhere at anytime (including the physically remote, the physically disabled)
- **Using access to ADR as means to build trust in consumer or commercial transactions** utilizing patent pending seal technology to display small seller verification on a seller's website or auction listings, showing a seller's commitment and easy access to ODR
- **ADR knowledge management** using online mediator administration functionality to train and coach mediators, conduct mediation and monitor mediators – all online. Enabling high-volume dispute management in a central fashion as never before possible.
- **Proving ODR works** so that a new generation of applications can be used in traditional settings (e.g., Real Estate through the California Association of Realtors)