THE eBay MILLIONAIRE

TITANIUM

PowerSeller Secrets for Building a Big Online Business

amy joyner



John Wiley & Sons, Inc.

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Published by John Wiley & Sons, Inc., Hoboken, New Jersey.
Published simultaneously in Canada.

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Library of Congress Cataloging-in-Publication Data:
Joyner, Amy.
The eBay millionaire : titanium powerseller secrets for building a big online business / Amy Joyner.
p. cm.
Includes index.
ISBN-13 978-0-471-71216-9
ISBN-10 0-471-71216-7
1. Internet auctions. 2. eBay (Firm). 3. Businesspeople. 4. Success in business. I. Title.
HF5478.J69 2005
658.8'7—dc22

2004029128

Printed in the United States of America.

10 9 8 7 6 5 4 3 2 1

To Bruce—Your love makes all things possible.

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PART one

Building an eBay Empire

Introduction

Since its founding in 1995, eBay has changed the way the world shops. The online auction site has more than 114 million active users (affectionately known as "eBayers") who buy and sell just about everything imaginable—from antiques and collectibles to cars, homes, boats, cameras, jewelry, crafts, and even airplanes. Indeed, the site recorded a record 1.4 billion listings and more than 40 percent of all eBayers closed an actual sale on the site in the past year. All told, eBay users sold a record $34.2 billion worth of goods in 2004, a figure that has been growing by about 45 percent a year. People spend more time on eBay than any other online site, making it the most popular shopping destination on the World Wide Web.

The company has come a long way since Pierre Omidyar, a young Silicon Valley computer programmer, spent one Labor Day weekend holed up in his home office writing computer code for what would eventually become the backbone of eBay. Omidyar's goal was to create an efficient and fair marketplace where buyers and sellers—and pure and simple supply and demand—would determine the true value of goods.

In its early years, eBay had a reputation of being a virtual flea market—a place to find mostly old used items. The company has grown up since then. Omidyar, now a billionaire several times over, has seen his idea spawn thousands of new businesses, including many that sell their wares exclusively on eBay.

While millions log on to eBay to sell single items they simply want to get rid of, some consistently make huge sums of money auctioning off items online. In fact, eBay estimates that close to 430,000 people make a good portion of their livings selling goods and services on the site—both in the United States and overseas. It's a number that has been growing rapidly in recent years, and analysts expect the trend to continue as more discover the amazing power of doing business on eBay.

What's especially attractive to entrepreneurs of all sizes is how little time and money it takes to get started on eBay. You can even start building your fortune

by working at home on a schedule of your own choosing. If you're a night owl, you can eBay at 3 A.M. Or you can work in your pajamas in the morning from your kitchen table. As a result, all sorts of people—including teenagers, new college graduates, stay-at-home moms, seasoned entrepreneurs, middle-aged workers, and even senior citizens—are starting eBay businesses hawking all kinds of items.

But what's the best way to get your own eBay business started? More importantly, what does it take to build a thriving online auction empire? What's the optimum way to locate merchandise to sell? And how can you most effectively display items to attract the highest bids?

The answers to these questions and more are found in *The eBay Millionaire*. This is the first book ever to focus exclusively on the proven and tested strategies for building a highly profitable eBay business that are actually being used by some of the auction site's top sellers—those collectively conducting millions of dollars in sales each year.

After some general guidance on getting your eBay business up and running, the book then presents inspirational and informative profiles of 18 eBayers who, at the time of our interview, were ranked as Titanium PowerSellers—the auction site's most elite distinction. This diverse group offers merchandise in a variety of product areas. Every featured PowerSeller has enjoyed legendary and documented success, and most have built their online businesses from the ground up. They share with us such secrets as how they got started, how they locate and decide which merchandise to sell, how they've handled growth, how they ship goods most efficiently, how they keep customers happy, and much more. It's like gaining access to 18 CEO role models who share their never-before-revealed business secrets learned from extensive experience.

Along the way, the book includes a number of "PowerPointer" sidebars within each profile, highlighting important lessons from the featured sellers of which you should take special note of. Every chapter ends with a frank "Titanium Talk" question-and-answer section, where we discuss an especially interesting aspect of the PowerSeller's business. We cover such topics as finding suppliers, combating fraud, devising pricing strategies, and selling goods internationally.

Just how accomplished are the PowerSellers featured in this book? Less then 4 percent of the millions of eBay merchants have earned the prized PowerSeller status, and only a small handful have vaulted to the coveted Titanium rank. Ebay has five PowerSeller levels: If you move more than $1,000 in merchandise a month, and maintain that sales level for at least three straight months, you qualify as a Bronze PowerSeller. Auction off at least $3,000 a month and you become a Silver PowerSeller. Generate more than $10,000 in sales a month and you become a Gold PowerSeller. Close more than $25,000 in auctions monthly and you become a Platinum PowerSeller. And if you sell at least $150,000 a month, you are

crowned a Titanium PowerSeller. *The eBay Millionaire* features only sellers who have achieved the top-level Titanium PowerSeller ranking.

These PowerSellers come from big towns and small, and sell a variety of products—including vintage Rolex watches, MINI Coopers, restaurant refrigerators, golf balls, designer shoes, Nike sweat suits, digital video disks (DVDs), vintage movie posters, sports collectibles, women's clothing, computers, cameras, and so much more.

You'll get real-life examples of how these highly profitable eBay businesses were built—some literally starting at the kitchen table. My goal is for you to walk away with limitless ideas for potential businesses you can start, along with invaluable guidance from the best-of-the-best about what works (and what doesn't) when it comes to selling goods on eBay. All of the featured merchants have made plenty of mistakes, and they'll share those as well so you can profit from their experiences.

Some of the businesses profiled in *The eBay Millionaire* have grown big enough to hire large staffs to create their auctions, answer bidder e-mails, and ship out products. Others remain surprisingly small, with just a handful of people fulfilling thousands of orders every week. Each chapter exemplifies how eBay can turn an established local enterprise into a worldwide online powerhouse. It also shows how eBay can be just the incubator necessary to turn a good idea into a great business.

For instance, Mike Shelton started eBaying (that's eBay-speak for selling goods on the auction site) to help out his last employer, a golf pro shop that had extra inventory it needed to liquidate. By October 2003, Shelton and a partner had started their own company, Designer Athletic, selling retailer overstocks—primarily shoes and athletic apparel—exclusively on eBay. Shelton doesn't let his vaunted title of "company president" keep him from the hard work. He still creates each of the company's auctions—hundreds every day. And when there are lots of orders to be filled, he's back in the warehouse with the rest of his guys, pulling shoes off the shelves and stuffing them into boxes. Designer Athletic, which is based in Durham, North Carolina, had revenues of around $5 million in fiscal 2004.

While eBay created Mike Shelton's company, it saved John Stack's. Stack was ready to close his family's restaurant equipment business in 1999. Before he did, though, Stack put 50 coffeemakers he'd been unable to sell through traditional wholesale and retail channels up for bid on eBay. What happened was as eye-opening as a strong cup of coffee.

Those auctions earned more money than Stack ever expected. He slowly began listing more and more items for sale on eBay. In five years, revenues for Stack's company, A City Discount, have increased 25-fold, from $400,000 in 1999 to $10 million in 2004, all thanks to eBay.

There are many eBay hucksters around—people who promise that amateurs can earn quick and easy riches by selling on the web site. But these top-level PowerSellers are frank about the hard work that is required to truly build a multimillion-dollar business.

When he first entertained the notion of earning money on eBay, Brandon Dupsky was smart enough to keep his day job. Today, at age 33, Dupsky is president and chief executive officer of Sell2All in Lincoln, Nebraska. The company, which Dupsky describes as "the Wal-Mart of eBay," sells surplus consumer goods for more than 200 suppliers.

In the beginning, Dupsky worked out of his basement, posting auctions at night after getting off work and finishing up MBA classes at the University of Nebraska. "It was a 70-hour-a-week job, and it hasn't slowed down since," he says. But all that work has paid off. Sell2All now generates revenues of just under $10 million annually.

Of course, turning large revenues into big profits takes a lot of work, as Mark Fitzgerald points out. The cofounder of Grapevine Hill started his company with two friends in Danvers, Massachusetts, four years ago. The company averages 9,000 eBay auctions every month and generates revenues of $4 million to $6 million annually selling name-brand designer shoes. Since its founding, more than 90,000 Grapevine Hill customers have posted positive feedback messages about the company.

Feedback is like the Better Business Bureau of eBay. It tells community members which users are reputable and which are not. After completing a transaction, buyers and sellers rate one another—positive, negative, or neutral. It's rare for a merchant that sells at the volume Grapevine Hill does to have such a high feedback rating—99.9 percent positive. But Fitzgerald, his business partners, and their employees are proud of that rating and remain focused on keeping it high. While it's partly about bragging rights, it's more for business. "Customer confidence is a significant factor in the overall final sale price," Fitzgerald insists.

In 1998, eBay's first year as a public company, the site hosted 13.6 million auctions and the value of all goods traded reached just $306 million. Today, eBay has 10 separate merchandise categories that each generate $1 billion or more in annual auction sales. The biggest is eBay Motors ($7.5 billion), which includes sales of vehicles, car parts, and accessories. Other top-grossing categories are consumer electronics ($2.6 billion); computers ($2.4 billion); books, movies, and music ($2 billion); clothing and accessories ($1.8 billion); sports ($1.8 billion); collectibles ($1.5 billion); toys ($1.5 billion); home and garden ($1.3 billion); and jewelry and gemstones ($1.3 billion).

The eBay Millionaire shows you how to get your piece of this huge pie. After you learn the exclusive tricks of the trade practiced by eBay's most experienced

merchants, Part Three reveals the "Fifty Strategies for Successful eBay Selling." This closing section highlights and summarizes the best tips espoused by those featured in the preceding chapters. It also includes a handy list of various resources these Titanium PowerSellers use to propel their online businesses, including auction management software and eBay research tools. Combined with the other valuable advice in the book, consider these final chapters to be your ultimate cheat sheet and mentor as you begin the process of building your own eBay empire.

The Power of the Titanium Secrets

How Just One Tip from This Book Propelled My Own eBay Business

"Oh my God," I shouted downstairs to my husband. "That tablecloth is up to $31!"

"That's more than we listed it for before," he yelled back, running to the stairs. "That's awesome!"

Halfway through writing this book, I decided to conduct a little experiment. I knew that the Titanium PowerSellers I had interviewed had successfully used certain sales technique secrets to generate big revenue through eBay. But would their methods really work for a much smaller eBayer like you and me?

My publisher, editor, and I certainly thought they would. In fact, that was the whole premise behind this book. But as a skeptical journalist, I knew I had to check some of the time-tested wisdom these Titanium PowerSellers graciously shared with me before actually making that claim to millions of other readers.

So, I decided to sell a few things on eBay, initially following just one key piece of advice that comes up in several chapters.

Some years back, way before the idea for this book was conceived, I approached my husband with a moneymaking scheme. In my newspaper reporting career, I've long covered technology and business, and have interviewed many

people earning hundreds or even thousands of dollars in extra income selling on eBay. I also knew that some folks actually made full-time livings selling on the auction site.

We should give it a try as well, I told him. What did we have to lose? And maybe someday we'd become so successful that we could quit our day jobs.

Besides, who can resist the daydream of becoming an Internet millionaire? Thus, largely self-taught, we began selling on eBay.

We were savvy about some things. We decided we'd sell through my user ID, "ajastro," instead of his because I'd been making purchases as an eBay member since 1998 and had eight times as much feedback as he did. (We both had perfect 100 percent ratings, but I buy more than he does.) Right off, we invested $250 in a Canon PowerShot A60 digital camera. I downloaded Turbo Lister, eBay's free auction management software, to make creating auctions easier. I upgraded my PayPal account to Premier status so we could accept credit card payments. Doing so also allowed us to get a PayPal debit card, which we used to buy inventory and pay our shipping costs.

We weren't quite so savvy about acquiring inventory. We began by selling our own collectibles—some of my McCoy pottery and some of my husband's video games and professional wrestling DVDs. We bought up what I thought would be hot items at the Pottery Barn Outlet and from local department store clearance racks. We purchased some candles from a local manufacturer and bought deeply discounted CDs and DVDs from a local record store that was closing. We scouted yard sales for collectibles that we thought we could resell.

When it came time to list the items on eBay, we always wanted to guarantee we wouldn't lose money. So, we'd either start the bidding low and put a reserve on the auction or open bidding at a higher price that would ensure a profit after paying fees to both eBay and PayPal. While we did very well on some items, others bombed. We'd list merchandise for auction several times, frittering away more and more in fees each time, and still many items never moved. Eventually, we got busy with other activities and stopped listing new auctions. But it was always our intention to start selling again, if only to clean out the "eBay room," the storage closet where we keep those things we bought to sell online.

Writing this book inspired me to get back into the eBay business with a new fervor. The Titanium PowerSellers featured here all have amazing stories. For the most part, they started with nothing more than an idea and passion. But through trial and error, they built their basement ventures into big businesses with minimum annual revenues of $1.8 million (and most are selling much more than that).

Along the way, the Titanium PowerSellers learned some key truths about eBay, which they graciously shared with me. Perhaps the most striking lesson—but certainly not the only one—was an understanding of auction psychology. Shoppers come to eBay because they want something—a DVD player, a deep-fat fryer

for their restaurant, or a pair of killer designer heels. But sometimes it's not the item at all that keeps them bidding, especially in a marketplace as big as eBay where the identical thing may come up for sale again in a week. EBay shoppers get caught up in the competition that is fueled by bidding. They get mad—and determined—when someone else outbids them. So, they bid again.

But you can't generate that kind of competitive fury if you don't give bidders a little room to wiggle, as seller after successful seller told me. If you start your auctions low—at 99 cents or even a penny, they said—you'll catch bidders' attention early and it will pay off in the end.

I found that to be quite a fascinating concept. But it was scary, too, and I'd pay the consequences right out of my pocket if it didn't work. Still, I figured if Jeff Hess of Hess Fine Art, one of the leading Titanium PowerSellers, could risk selling a vintage Rolex for a starting bid of 99 cents, I could take a similar risk on my $10 and $20 household knickknacks.

That brings us back to the tablecloth we had bought the year before off the HomeGoods store clearance aisle for around $24. I'd tried to sell it at least three times before, first with an opening bid of $39.99, then $34.99, and finally $29.99. But there were never any takers. Each time, I was forced to put a couple of dollars in eBay's coffers for the listing fee, significantly raising my cost for the tablecloth.

Armed with the knowledge in this book, I decided to take a gamble. I listed the tablecloth for sale yet again, but this time with a starting bid of $9.99. (I wasn't brave enough to start the auction at 99 cents, but in hindsight, I wish I had. I can only imagine the bidding fury that would have created.)

Within a few hours, I had my first bid. Then four other bidders jumped into the fray. By the time the auction was over seven days later, we had received 19 bids and the price had risen to $81. We'd made a profit. Quite a nice one.

Now, I'm hooked on selling again. This time, I have eBay's most successful sellers as mentors. And you do, too.

Just think: I saw immediate results with my own eBay business by using just *one* of the tips in the book. Imagine how successful you could be putting together the dozens of other great ideas you'll uncover in the pages that follow.

Getting Started

The first key to becoming an eBay seller is to start buying goods from the auction site. That's exactly how many of the Titanium PowerSellers got started themselves.

Buying on eBay serves three purposes:

First, you need to become familiar with the eBay marketplace, and there's no better way to do that than by spending lots of time on the site. It's only through personal experience that you'll learn the nuances of finding products, bidding, and buying on eBay.

For example, as a convenient option, eBay uses a proxy system to make bidding on items easier and less time-consuming for customers. When you find an item you want to buy, you enter the maximum price you're willing to pay. For the duration of the auction, eBay's computers take over, acting as your proxy every time a competitor bids against you.

Suppose you find a CD you've been dying to have for sale on eBay. The starting price for the auction is 99 cents, and so far no one has placed a bid. You decided you're willing to pay $12.99 and enter that amount as your maximum bid. As soon as you click the "Confirm Bid" button, you'll be listed as the high bidder for that auction with a bid of 99 cents. As long as no one bids against you, you'll get to buy the CD for 99 cents.

If another bidder comes along who is willing to pay a maximum of $11.99 for the CD, eBay will automatically raise your posted bid to $12.49. If the next bidder is willing to pay a maximum of $13, eBay will bump you right out of the running for the CD. If you still want to buy the disk, you'll have to put in another maximum bid and hope it beats everyone else's. Until an auction ends, eBay will continue to automatically bid for you and every other bidder in the running.

I remember how confused I was about proxy bidding when first registered with eBay in October 1999. But as soon as I started bidding, the process became crystal clear. And it will for you, too.

As a seller, familiarizing yourself with proxy bidding will give you a better understanding of how bids come in for your items and why so many are made in the final minutes—and sometimes final seconds—of an auction. This will also help you to develop a more effective pricing and auction listing strategy.

The second reason you should start buying on eBay before selling there is so you can build up your feedback score. Every eBay user starts out with a feedback score of zero. It's only through satisfactory transactions that your score begins to grow.

EBay designed its feedback forums to give buyers and sellers a measure of comfort about doing business with someone they've never met before. After an auction closes, both the seller and the buyer have an opportunity to rate the person on the other end of the transaction and to post a short comment about that individual. Every positive comment from a unique user garners another feedback point. Negative comments subtract a point from a user's feedback score. With neutral comments, no points are lost or gained.

Some sellers refuse to let people with zero feedback bid on their auctions. But most eBay merchants recognize when bidders are new to the auction site, and will gladly do business with a novice.

Most buyers, however, aren't as generous. And it's no wonder. Would you send $100—or even $20—to someone you didn't know to be reputable without first checking the person's references, talking to past customers, and consulting with the Better Business Bureau?

The same logic works on eBay. If you don't have a feedback score, chances are few people will bid on your auctions and your goods will sell for less than they are worth. But if you've built a good reputation as an eBay buyer, bidders are more likely to trust you, and your merchandise will sell for a higher price.

It's like the difference between buying a designer purse from a department store versus from the back of a truck on a New York City street. If you're looking to save a buck—and don't care about quality or authenticity—you might purchase from the sketchy street vendor. But if you want a real Prada—and not just the label—you'll buy only from a dealer you know to be reputable. It works the same way on eBay.

The final reason to begin your eBay venture by buying is so you can check out the competition and learn some valuable lessons about how to sell. Do as Titanium PowerSeller Brandon Dupsky did before he founded Sell2All: Take note of how other eBay sellers operate. Which categories do they sell their merchandise in? How do they describe their items? What do their auction photographs look like? What payment methods do they accept? How many times did they e-mail you after you won the auction? After you paid, how long was it before the item arrived? How did the seller ship the goods to you? How was the item packed? Was there an invoice or any promotional material in the package?

Use what you learn to set your own auction practices and policies. Borrow the best ideas and banish the rest. Once you've done an ample bit of buying and feel confident in your understanding of eBay and your market research, you'll be ready to start selling yourself.

The next chapter offers a basic step-by-step guide to getting your eBay business up and running. These instructions are meant for those just getting started. If you're already an existing eBay seller who is ready to move from the ranks of amateur to mogul, feel free to skip ahead to Part Two, where the profiles of the Titanium PowerSellers begin.

Sixteen Essential Steps to Launching Your eBay Business

Step 1: If you don't already have an eBay user ID, register for one. Anyone can browse through the millions of items for auction on eBay, but only registered members may buy or sell on the site. (You must be at least 18 years old to register.)

Registering to become a member of the eBay community is simple, and it doesn't cost a thing.

From the eBay home page at www.ebay.com, click on the "Register" link at the top of the page. You'll be prompted to enter your name, address, telephone number, and e-mail address. Then, you'll choose your eBay user ID, which is the name that all your customers will know you by.

Pick a name that will be easy for your future customers to remember. If you plan to expand your business, don't choose a user ID that will hamstring you in the future. That's why Grapevine Hill's founders chose "grapevinehill" instead of something like "greatdesignershoes." These Titanium PowerSellers knew that later on they might want to expand their offerings beyond great designer footwear.

To complete the registration process, you'll have to read and agree to eBay's user agreement and privacy policy and confirm your e-mail address. Then you're ready to sell.

EBay has an excellent audio tour on its web site that walks you through the selling process in step-by-step detail. To learn more, point your Web browser to http://pages.ebay.com/education/selling.html.

Step 2: Find some merchandise. There's a market for just about everything on eBay. So clean out your closets, buy yard sale treasures, scour the clearance racks at your local department store, ask friends for their throwaways, or strike a deal with a local company to buy its excess inventory cheaply.

But don't go overboard. Start small to keep yourself sane.

Before placing the contents of your late Aunt Sophie's attic on eBay, test the marketplace. Put one or two inexpensive items up for bid. That way, you can get a taste of the whole eBay selling process—from posting to shipping—without getting overwhelmed or spending a great deal of money.

Step 3: Buy a digital camera. To successfully sell on eBay, you need to include a photograph with each auction listing. Photographs are not required, but you'll attract more bidders by using them.

If you have a regular camera, when you drop the film off for developing you can ask the lab to make and save digital copies of your pictures on a CD. You can incorporate those digital images into your eBay auction with relative ease.

You can also use a scanner to convert regular film pictures to digital images for eBay. A flatbed scanner is a good tool if you're selling items like books, CDs, photographs, baseball cards, or other flat items.

But if you plan to do much selling on eBay, your best bet is to invest in a digital camera. That way, you don't have to wait until you finish a roll of film to post your auctions. Instead, you can plug the digital camera into your computer and transfer the images to your hard drive in seconds.

When buying a digital camera for eBay, look for one that has image capture capabilities of at least 2 megapixels. Also choose a camera with macro capabilities. This will enable you to take close-up pictures without losing focus or distorting the image.

You're likely to find a camera that will suit your eBay business for $200 to $300, but you can pay more for a feature-packed model.

You may also want to invest in special lighting and neutral-colored backgrounds to give your auction photographs a professional look.

Step 4: Photograph your item. Once you've settled on what you want to sell, take a picture of it to accompany your auction listing.

Photograph your item in a well-lit and uncluttered area to ensure that you get the sharpest image. Depending on what you're selling, you may want to take multiple photographs from various angles. If there are any special markings or flaws on your item, take close-up photographs of those. Then, transfer the images to your computer.

Make sure to store the image files in a place where you can easily find them on your computer and give them names that make sense. For example, if you're selling a wicker chair, name your image files "wickerchair1," "wickerchair2," and so forth.

Step 5: Research your selling options. Before listing an item, visit eBay and use the web site's built-in search engine to see if similar items are up for auction. This way, you'll be able determine which of eBay's thousands of categories your item fits in.

You'll also discover what similar items are selling for—and whether they are selling well. EBay charges sellers at least 30 cents for each auction it places. (The higher the opening bid, the higher the fee.) You have to pay that fee no matter what. So, if you find that there are a thousand items identical to yours for sale and none of them have bids, you may want to rethink that auction. Instead, choose to sell something that has higher demand or is in shorter supply so you won't lose money.

Be sure to search completed auctions as well through the Advanced Search feature on eBay. That will show you the prices that similar items fetched on eBay in the past month.

Step 6: Begin preparing your auction listing. From the eBay home page, click on the "Sell" button. You'll first need to decide whether you want to allow shoppers to bid on your item through an online auction or you want to sell it at a fixed price to the first eBay user who chooses to "Buy It Now."

Next, you'll be prompted for your eBay user ID and password. Once you enter that data, the page advances to the auction listing form.

Step 7: Pick a category. Your next step is to select an eBay category to sell in.

There are about 24,000 listed on the site, so choose carefully, because many shoppers browse for merchandise by category. EBay does allow sellers to list items in two different categories. Doing so boosts bids by 18 percent and the final sale price by 17 percent, according to eBay, but you will have to pay double the listing fee if you choose this option.

Step 8: Write a customer-grabbing headline. Once you've determined which category to sell in, you must write a title for your auction. You'll want a title or headline that's informative and packed with keywords.

Most shoppers go to eBay looking for a particular item, and they'll search using brand names and other keywords, so it's important to include as much specific descriptive information in your title as you can.

For example, I collect McCoy pottery. For years I've coveted a vase that appears to have leaves and blades of grass wrapped around it. I routinely search for that vase on eBay, typing in the phrases "McCoy vase leaf," "McCoy vase leaves," or "McCoy vase grass." If a seller didn't use the word "McCoy" in his auction title, I'd never find his vase because there are so many listings to choose from.

You may also include a subtitle for an additional listing fee of 50 cents.

Step 9: Write the description. Once you've given your auction a title, it's time to describe your item. The item description is your chance to sell your merchandise to eBay's vast buying public, so be as thorough as possible.

EBay bidders want details, so tell them as much as you know. For antiques and collectibles, detail the item's provenance if you know it. But be honest. Don't say that a jumpsuit was worn by Elvis when it was really donned by your dad that Halloween he dressed up as the King of rock and roll.

Likewise, don't omit information about defects in an attempt to drive the selling price higher. If an item is well worn, chipped, or torn, don't try to pass it off as new out of the box. If you lie about an item, your feedback rating will likely suffer and you'll lose business in the future.

Finally, avoid hyperbole—the used-car salesman approach doesn't sit well with eBay buyers.

It's also a good idea to set out your payment or shipping terms in your item description. Let your bidders know if you'll accept checks, money orders, credit cards, PayPal, or some other online payment method.

Tell bidders how much you'll charge for delivery, and whether insurance is included in that price or costs extra. If you ship items only twice a week, enumerate that in your auctions so buyers are forewarned and don't leave you negative feedback for slow shipping.

Step 10: Set your price. Now, you must decide the starting price for your auction. Many eBay Titanium PowerSellers recommend starting auctions low, at a penny or 99 cents. This saves you money on listing fees, and it also attracts more bargain-seeking bidders.

But if you start an auction cheap, your item may sell for that price if only one person bids. Are you willing to take that risk?

To protect yourself, you may opt to place a reserve on your auction. A reserve is the minimum price you're willing to accept. If no bid matches or tops your reserve, you don't have to sell the item. EBay assesses an extra fee for reserve-price auctions. For most merchandise, reserve fees range from $1 to as high as $100 on pricier items. These fees are refunded by eBay if the item sells.

Another option is to start the bidding higher to ensure yourself a profit on the item. If you choose this option, you may have to pay a higher listing fee to eBay. If you set the starting price too high, your auction may end without garnering a single bid and you'll still owe eBay the auction listing fee.

Step 11: Pick your time period. Decide whether you want your auction to end in one, three, five, seven, or ten days. (You'll pay an extra fee for a ten-day auction.)

Most eBay auctions last for a week, but you may only begin to see heavy bidding in the final day or even the final few minutes of the auction.

Step 12: Attach your pictures. By this point, you're almost finished with your listing. But you've got to put the icing on the cake.

From the online listing tool, follow eBay's instructions to attach photographs to your auction. The first one is free, and additional images cost 15 cents each. You can also pay extra for options like supersized pictures and slide shows.

Step 13: Choose additional listing options. To improve the visibility of your auction, you may pay more to customize it. You can choose to have your item title appear in bold text for $1 extra.

For 35 cents more, you can add a gallery image to your auction. A gallery image is a small picture that appears in the eBay category listings and search pages. It allows customers to see what you have for sale without clicking on your auction.

Step 14: Select shipping and payment terms. Next, eBay will prompt you to choose how you want to be paid for your item. You'll check off boxes to designate these preferences. If you decide to accept checks or money orders, you should tell buyers where to mail them. (You may have already included this information in your item description, but it's a good idea to repeat it so bidders are fully aware of your auction terms.)

You'll also check off boxes to indicate where you'll ship items. You can choose to ship worldwide, to the United States only, or to seven other different regions of the world.

In this step, you can also specify how much you'll charge for shipping and which carriers you'll use, or you may omit those details.

Before bidding, most eBay users like to know what their total cost will be, including shipping. Therefore, it's a good idea to include that price in your auction listing. Otherwise, you can integrate eBay's shipping calculator in your auction ad.

To determine delivery costs, a bidder enters his zip code into the shipping calculator. Using the zip code and size and weight data that you provide when creating the auction, the calculator computes a shipping estimate.

Step 15: Preview your auction. Before your auction goes live, eBay gives you a chance to preview the listing and make any changes. Proofread carefully and check your prices because once you start receiving bids your ability to make changes to the auction listing is limited.

Step 16: Post your auction. When you've determined that the auction ad is perfect, hit the "Submit Listing" button. As soon as you do, your item will be posted on eBay, and you'll have access to a marketplace that is 114 million people strong and growing every year.

These are the basic steps of selling on eBay. But it takes more than 16 steps to be a successful online auctioneer. Read ahead and discover how eBay's top merchants—those Titanium PowerSellers who sell more than $1.8 million in goods

on the site every year—handle such matters as customer service, inventory management, supplier relationships, international orders, fraud, shipping and handling, feedback, and so much more.

Now that you know what it takes to get your business launched, let's learn from eBay's most successful merchants about how to succeed in the exciting world of online commerce.

two

PART

The Titanium PowerSellers

1

profile

A City Discount

As he's giving driving directions, John Stack warns that his office isn't in the best part of town. And it's true. His company, A City Discount, is headquartered in one of Atlanta's grittier neighborhoods, far from the skyscrapers of downtown and the shiny tourist spots. His dad moved the family business into this building in 1975 and, at least in appearance, it seems as though nothing has changed since then.

The 20,000-square-foot building is just another warehouse in a row of other nondescript warehouses and burned-out factories. The gravel parking lot out front is just big enough for a few cars. The lobby is a tiny rectangle, decorated with a white vinyl couch and a coffee table strewn with *Fortune*, *Money*, and other business magazines. A few framed advertisements and magazine articles hang on the dingy walls. The carpet is water stained and the window above the front door has a jagged hole in it.

This setting belies the company's success.

A City Discount is one of the top sellers of business and industrial products on eBay. In fact, the Atlanta company is the largest provider of used restaurant equipment on the site, though the lion's share of its revenue comes from selling new goods.

In five years of online selling, A City Discount has completed more than 25,000 eBay auctions, scoring some 20,000 positive feedback postings from buyers. The company's revenues were $400,000 in 1999, and they've grown every year since: $1.4 million in 2002, $4 million in 2003, and around $10 million in 2004.

A City Discount, which operates under the eBay name "acitydiscount," reached Titanium sales status in March 2003. The company sells some big—and fairly expensive and specialized—restaurant equipment. But this is a company that generates its revenue through volume, not through a few high-ticket items. Ice cream makers are A City Discount's biggest sellers, and most of the company's customers are mom-and-pop restaurateurs and consumers. The company's average sale is actually fairly low at just $300.

John Stack's father started A City Discount in 1973. He'd been in the restaurant business his whole life and started to sell used equipment mainly as a sideline hobby. In doing so, he stumbled on a market with strong demand but few suppliers. Eventually, Stack's father sold the last of his restaurants to a Kentucky Fried Chicken franchisee, and turned his full attention to selling used equipment. He got his inventory at government auctions and by striking deals with restaurant chains that were closing or renovating their eateries and replacing their equipment. Indeed, Kentucky Fried Chicken became one of the first chains to supply A City Discount with merchandise.

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Old inventory from companies going out of business may find a huge number of receptive buyers on eBay.

Restaurant owners in Atlanta and the surrounding region would come to the company's warehouse on Murphy Avenue Southwest to buy fryers, ice makers, deli cases, and other supplies for their eateries. A City Discount had found its niche.

By the mid-1980s, John Stack, who'd worked as an engineer, returned to the family business and took over from his retiring father. While the 1970s and 1980s were pretty good for the business, the company began losing market share in the 1990s.

By 1999, sales were dropping fast, and John Stack wasn't sure how to turn things around. In fact, Stack didn't see many options for reviving the business, and he was planning to shut it down. Then, some very run-of-the-mill equipment changed things.

A City Discount bought out a chain restaurant's inventory and took everything into its warehouse. That included about 50 restaurant-quality coffeemakers.

"I didn't have a local market really," Stack says. So he decided to see if he could sell the coffeemakers on eBay. He knew that at that time about 3 million people shopped on eBay every day—providing much better exposure for the coffeemakers than he could get even in a big city like Atlanta.

Stack paid only about $25 each for them, and he wasn't aiming to make a huge profit. He just wanted to get rid of the coffeemakers because they were eating up space in his warehouse. He started the bidding low, at around $49, and people began buying. Each coffeemaker sold for around $150 to $200, resulting in a tidy profit for Stack.

Buoyed by the coffeemaker sales, he started experimenting with other items that had been sitting in his warehouse. Stack had his next big eBay success with some mandoline slicers, which he was selling on consignment. At his retail store, they had been such duds that Stack sent most of them back to the manufacturer.

A week later, though, he auctioned one of the slicers on eBay. When it sold, Stack called the manufacturer and begged his sales representative to bring the rest of them back. By the end of that year, A City Discount had sold about 500 of the slicers, both to restaurants and to consumers.

Every day, Stack and his staff were selling more and more things online and shifting their focus from cultivating retail customers to cultivating business on eBay. By 2001, Stack closed the retail business. Now more than 60 percent of A City Discount's sales come from eBay (both auctions and its eBay store). The rest are made through the company's own e-commerce web site and through relationships with existing customers.

"I've got more customers in California than I do in Georgia," Stack notes.

Though Stack's father found his niche selling used restaurant equipment, his son has added more new inventory to the mix. It costs less, in terms of time and money, to sell new items, particularly on eBay. Many of the used items that come into Stack's possession are big and expensive—fryers, coolers, and the like—so they attract higher bids on eBay. But that doesn't mean the profit margin is high.

powerpointer

EBay is more than a flea market. In some categories, it's often easier to sell brand-new equipment than used equipment on the site.

"Selling used equipment is pretty labor intensive," Stack says. "Restaurant equipment is the greasiest, grimiest equipment out there." When a used item comes in, Stack's staff typically cleans it, inspects it, and tests it for any defects. Used items are often sold as is. Stack's auction ads describe the item carefully and may indicate that an item is dirty, greasy, and in need of more cleaning.

"We get it where it looks decent so the customer can tell they're not buying a total piece of junk," he says.

Then, employees must photograph the item and write a description of it before posting it on eBay. Finally, the shipping department packs up the used item and puts it on a pallet for shipment.

powerpointer

When selling used equipment, make sure to clean and test it for any defects, so you can inform customers of its functionality. Otherwise, auction off the items "as is."

A City Discount has about 30 employees, and most work primarily on the used equipment side, which accounts for just 20 percent of the company's sales. It's clear that used items are more labor intensive to sell even though the profit margins are smaller.

Through his decades in the restaurant equipment business, Stack has developed relationships with many manufacturers, and he sells their brand-new goods online. For these auctions, A City Discount is able to use stock photography and stock descriptions, minimizing the time employees must spend preparing a listing. Most of these manufacturers also drop ship their items directly to the winning bidder. That means A City doesn't have to inventory so many goods. This lowers the company's overhead and frees up its cash. And it enables Stack to transfers the cumbersome and expensive task of packaging and shipping items to someone else.

powerpointer

When selling new equipment, have items drop shipped directly from the manufacturer to the buyer whenever possible.

A City Discount was the first company to begin aggressively marketing new restaurant equipment on eBay. Initially, because he had no competition, Stack marked up the prices of these goods, posting them at more than he could get at his retail storefront. But as competitors entered the market, prices dropped and equalized. Now, Stack starts bidding for the majority of his new equipment at 99 cents.

Stack points out that sometimes a penny can save you a nickel. If you start an auction at $1, you'll pay a nickel more in eBay fees than if you start it at 99 cents. This same rule applies at higher starting bid prices as well. For instance, eBay charges a listing fee of 35 cents for an auction that starts at $9.99, but 60 cents for an auction that starts at $10.

powerpointer

Before setting your starting bids, consult eBay's listing fees. Sometimes you can save a significant amount by starting an auction for just a penny less.

It took a while before Stack was comfortable with this pricing structure. He'd been trained as a retailer, so he initially treated eBay like another store and started

bidding at the rock-bottom price he was willing to accept. He found that many of his auctions were ending without a sale, yet he still owed eBay money on those items that didn't sell.

But eventually, Stack was reminded of something his father once told him: An item is worth only what someone is willing to pay for it.

So, like many experienced sellers, Stack slowly began lowering his opening bids. He shook himself free of that retail mentality and profited as a result. With eBay, sellers who start auctions with low opening prices do risk selling their merchandise for below its value—or even less than what they paid for it wholesale. But that rarely happens with the things that Stack auctions because he sells only items that he knows are in demand. The final prices are generally stable from one auction to the next, he says. Huge Hobart mixers, for example, typically sell for $3,000 to $4,000—exactly what they're worth—even if the opening bid is 99 cents.

Stack has many examples of items that have proven that this pricing strategy works. A used walk-in cooler and freezer combination is perhaps his best example. The freezer was part of a batch of equipment that Stack was liquidating for a supplier. The freezer was worth about $40,000 new and was still in good shape, so Stack set up an auction with an initial asking price of $10,000. No one bid. With his deadline to liquidate the stock looming and knowing that he might get nothing out of the item anyway, Stack listed it for 99 cents on eBay. He figured the owner would rather get rid of the freezer, no matter what the price, than be stuck with the surplus. In the end, the refrigerator-freezer combo wound up selling for more than $10,000.

"Overall, I get a very fair price for my used equipment," Stack says.

By starting his auctions lower, Stack also saves on eBay listing fees. If he opens bidding for an item at $499, eBay charges him a $3.60 listing fee. But if bidding opens at 99 cents, he pays just 30 cents to post the auction, a savings of $3.30. Such savings add up, especially for a high-volume seller like A City Discount, which has about 10,000 items for sale on the web site, both through auctions and in its eBay store.

powerpointer

The lower you start your bidding, the greater your chances of selling the item for the price you're looking for. Plus, at the same time you'll save on listing fees.

Decades of experience in the family business have given Stack a good understanding of what restaurant equipment is in demand, what it's worth, and what it

will fetch on the open market. But he uses other tools, specifically HammerTap's DeepAnalysis, to understand the eBay marketplace.

Using results from completed auctions, the software application generates sales statistic reports. The software scans all of the auctions in a particular category and reveals the most successful sellers and most popular items, and shows aggregated total sales figures and sales success rates.

DeepAnalysis extracts data from auctions and shows which ones received the most bids and sold for the highest amounts. The application also generates reports that help sellers pinpoint which categories to list their items in, how long each auction should run, and what eBay extras (such as a gallery photo) will generate the most sales and the highest closing prices.

powerpointer

Analyze all of your auctions using a tool like DeepAnalysis to determine which items are most popular, which items sell most frequently, and which items deliver the best profit.

Despite his success as an auction seller, Stack didn't open an eBay store until early 2004. At an eBay store, customers are able to buy at item right away at a fixed price without the hassle of bidding. Stack sells a variety of items through his store, including big-ticket items like conveyor pizza ovens and cheaper goods such as toasters and accessories. His store listings cost literally pennies a month, even those containing a picture. "EBay gave me the incentive to [open a store] when they had a significant fee increase," Stack shares. (As this book went to press, eBay implemented another fee increase, raising the monthly cost for a standard eBay store from $9.95 to $15.95. The auction site also now takes a bigger cut from store sales. It collects a final value fee of at least 8 percent for every item that is sold through an eBay store. That fee had previously been 5.25 percent of the item's closing price.)

A City Discount was recognized at the 2003 eBay Seller Summit as the auction site's best merchandiser because of the company's success in using various eBay merchandising tools to improve sales.

For example, Stack uses cross-selling techniques to move more merchandise. Each auction includes links for related items that are either for auction or for sale in A City Discount's eBay store. For example, someone who bids on a fryer will also see a listing—and links—to fryer baskets, filters, and other accessories A City Discount has for sale. Using these techniques, the company boosted its average sale from $140 in January 2003 to $300 in June 2004.

powerpointer

Include links in your listings to other, related items you have for sale elsewhere on eBay.

Stack builds other hyperlinks into his auctions, something many sellers don't do. Bidders who are interested in the auction for a 24-pan pizza rack made by PVI Food Service can find out what else A City Discount has for sale from that manufacturer with just one click. They can also find auctions in that same category—pans and pan racks—by clicking another link.

Stack also employs other promotional techniques to improve sales.

The company uses a photograph not only for every auction, but also for everything for sale in its store. These pictures show up as smaller thumbnail-sized "gallery" images on eBay's category listings or search results page. Gallery listings cost 35 cents per item, but they increase an object's final price by an average of 11 percent, according to eBay. Every one of A City Discount's gallery images includes the company's logo, which Stack says helps build brand awareness among people who are shopping for restaurant equipment. Buyers can see A City Discount is the seller because its name is on the gallery image.

Other times, A City Discount pays extra to run a "Featured Plus" auction. This option, available to sellers with a feedback rating of 10 or more, ensures sellers that anyone searching for their specific item will see their listing. Featured items show up at the top of the screen on category listing pages, and they're also displayed prominently on search pages. The fee for this top-of-the-marquee billing is $19.95 per item.

"We use Featured Plus occasionally," Stack says. "We like to be at the top of search results."

powerpointer

Consider using eBay's Featured Plus service to get your items placed at the top of the site's category listing pages.

A City Discount maintains a database, programmed by Stack, of its entire inventory and auction history. This database is rich in information and helps him gauge what is selling and at what price. He also programmed the company software to mine eBay for feedback. So, every time a bidder posts a feedback rating for one of A City Discount's auctions, the database collects that information and

correlates it with the item, using the eBay auction number and internal inventory control number.

Stack uses this information later when he sells an identical item. He'll include a link in the next auction, "What our customers think about this item." Bidders who click on the link can read what previous buyers said about that particular product and manufacturer. Bidders can also see what A City Discount's customers thought about the company's shipping by clicking on the "Shipping Info See Our Feedbacks" in every auction.

powerpointer

Track auction feedback and include past comments from customers when putting identical items up for sale in the future.

Stack has been an innovator since the day he began selling on eBay. He developed the first freight calculator on the auction site. That was out of sheer necessity. About a year into his eBay venture, Stack sold a sheet pan rack. The California-based buyer paid $30 for shipping and handling. But it cost A City Discount five times as much to deliver the lightweight, yet bulky, item to the buyer.

Stack learned from his costly mistake and programmed his own freight calculator, which is now included in every A City Discount auction listing. The calculator works this way: It takes size-and-weight specifications from A City Discount's database of inventory and determines which shipping company can most efficiently and most affordably ship the item. When a customer enters the zip code, the calculator provides a shipping quote.

A City Discount's freight calculator is actually a very sophisticated tool. Many of the company's new items are drop shipped by the manufacturer. And many of these suppliers inventory their items in multiple locations around the country. Stack's shipping calculator is sophisticated enough to determine which warehouse is closest to the bidder, and it calculates the price that way.

Providing the freight calculator lowered his selling price, Stack says, because customers were figuring the shipping fees into the item cost and tempering their bidding accordingly. But it also improved his completion rate.

"Customers were more confident buying from me because there was no hidden cost," he adds.

Stack, an experienced computer programmer, designed and wrote the code for A City Discount's proprietary freight calculator. But these days, eBay also has a free shipping calculator that sellers can use in their listings. To find out more, visit http://pages.ebay.com/services/buyandsell/shipping.html.

powerpointer

Include a shipping calculator so customers know exactly how much it will cost to transport a given item. If you don't want to build your own, use the one provided by eBay.

A City Discount also was the first seller to begin using eBay's Keyword Program. The service allows sellers with an eBay store to select specific words and phrases as their keywords. When shoppers type those keywords into eBay's search engine, the company's banner ad pops up above the search results. Sellers pay for the advertisement only when someone clicks on it. Stack says the keyword program is an effective way to advertise his business and to attract bidders. "This banner has appeared more than 40 million times, but we only pay by click," he says.

The company was also a pilot member of eBay's Co-Op Advertising Program, in which the auction site shares in the cost of any advertising by PowerSellers and trading assistants. EBay will reimburse up to $8,000 of a seller's print advertising costs each quarter. Stack was also one of the first sellers to incorporate eBay's Equipment Financing Program into his auctions. Now, on purchases totaling $2,000 or more, bidders can get credit from Direct Capital rather than immediately paying for the item. Sellers who offer financing don't have to pay a final-value fee, which can be as much as 8 percent of the selling price.

powerpointer

Consider using such eBay services as Co-Op Advertising, the Keyword Program, and Equipment Financing to boost sales for a relatively small investment.

For a while, it didn't seem like John Stack would be able to save the family business he inherited from his father. But every year, A City Discount now celebrates two anniversaries: its founding as a secondhand equipment company and its resurrection—some 26 years later—as an eBay merchant.

There's now another Stack in the business. John's son Marty is the company's senior manager for new equipment. When it's time for his father to retire and pass along leadership, A City Discount will probably still be headquartered in the same shabby Atlanta warehouse. But if the company's growth progresses as it has during these past few years, the building is the only run-down thing Marty Stack will inherit. A City Discount, with annual sales of $10 million, is a flourishing enterprise, thanks largely to eBay.

TITANIUM TALK

John Stack sells new and used restaurant equipment on eBay, and after five years on the auction site, he's figured out how to efficiently and inexpensively move merchandise to his winning bidders. Here, Stack talks about handling heavy freight shipments, drop shipping, and using freight calculators in his auctions.

Q: You ship some pretty big items out to your customers, and I want to get a better sense of how you accomplish that. How do you receive those big items? For example, how does a big fryer come into your warehouse?

A: It's a combination of us picking them up or our suppliers delivering them [to us]. When a used item comes in we'll pick it up out of a restaurant and just put it on a truck [and warehouse it here until it sells].

On the new side, merchandise is all drop shipped by our suppliers. We don't ever touch it.

Q: As you mentioned earlier, drop shipping merchandise is the preferable method because it's less time-consuming for you and your employees.

A: I don't have to build up an inventory of things that might not sell. We can just purchase what sells, so it frees up more money—my cash—to be used in different areas.

Q: When you ship out large used items, you're putting them on pallets and contracting with freight companies for delivery, correct?

A: Yes, those large used items are going to go out strapped on a pallet.

Q: How do you insure them?

A: We don't. On used items, trucking companies don't provide replacement insurance. The only insurance that's provided gives you like eight cents a pound. It's based on the weight of the item, not on the value of it.

Over the years we've had very, very few cases where the item is destroyed or unusable. The trucking company might put a dent in it, but they rarely make it unusable. And they'll usually pay something fair to have damaged goods repaired.

Q: So, catastrophic damage has happened so infrequently with the freight carriers that you contract with that it's worth the risk to send out items uninsured?

A: Right.

Q: And your customers are aware of that when they purchase from you? They know if their item is destroyed in transit, they're going to be reimbursed based on the weight, not what they paid for it?

A: Yes.

Q: How valuable do you think your integrated freight calculator has been to your business?

A: Priceless, I guess you could say. We wouldn't have been able to achieve the growth we've had without it.

Q: Is that because you think people wouldn't have bid on your auctions if they didn't know the total cost including shipping?

A: They might have bid, but a lot of them would have gotten upset when they won and then found out what delivery would cost.

The next enhancement to our freight system is customers will be able to get a delivery price into Canada that'll include the brokerage fees to get it across the border. Our present system will calculate freight costs to Canada, but it just doesn't include the duties and brokerage fees or the sales tax that might need to be charged. Our Canadian customers eventually will be able to put in their postal codes and get a delivered freight rate.

Q: How much can these added brokerage fees, taxes, and customs duties add to someone's cost?

A: It can add another 15 to 20 percent.

2 profile

AuctionDrop

A few years back, Randy Adams' wife issued an ultimatum. She was fed up with parking her car in the driveway when she had a perfectly nice, though stuffed-to-the-gills, garage. Clutter escalates when you have six kids, and the maze of junk that had piled up in the Adams family garage was driving the matriarch mad. She wanted all that "we'll-use-it-later" stuff gone. Right now.

"Clean it up," she told her husband. "Sell all the junk on eBay."

Like a good husband, Adams obeyed. But he discovered that emptying a garage on eBay isn't as easy as it sounds, especially for someone who had never sold through the auction site before. Nor, Adams realized, could he do it as quickly as his wife wanted. There were dozens of digital pictures to take and descriptions to write. Plus, he'd have to package all the junk up and haul it to the post office once it sold. Who has time to answer all those questions from potential buyers? And how was he going to attract bidders and score the best prices for his clutter with a feedback rating of zero? It's hard being a casual seller starting out on eBay, Adams discovered.

Wouldn't it be nice if there was someone to do the selling for you, Adams mused. His wife, ever the pragmatist and eager to have her garage cleaned, suggested that Adams take his entrepreneurial know-how and start just such a company.

Adams had cofounded the Internet Shopping Network, one of the Web's first retail sites, in 1994. Once again he decided to listen to his wife. He found two business partners, Bill Rollinson and Andy Jeffrey, and began soliciting venture capital for a new eBay consignment company.

That, according to company legend, is how AuctionDrop was born.

By March 2003, the first AuctionDrop store opened in California's San Francisco Bay Area. By that time, eBay had many trading assistants who would auction items for other people. Trading assistants essentially run virtual consignment stores. Clients bring them merchandise, and they handle every

aspect of selling an item on eBay. For that service, they may charge a fee or share in the profits from the sale.

AuctionDrop took the trading assistant concept one step further by opening a retail storefront where people could drop off items to be sold. The company handles every part of the online auction, from listing to shipping, and takes a commission of 20 percent to 38 percent when an item sells. Consigners also must pay eBay's listing and final value fees, which range from 1.5 percent to 5.25 percent of the selling price on most auctioned items. The rest of the money is theirs to keep.

"We've created the easiest way to sell on eBay," Adams, who is chief executive officer (CEO) of AuctionDrop, said in a press release when his first store opened. "You don't need any experience. You don't even need a computer. Just drop it off and our knowledgeable staff does all the right things to sell it on eBay at the highest price."

AuctionDrop's first day of business proved that Adams' idea had legs. Lured by advertisements, people lined up outside the store waiting for the neon Open sign to flicker on. You'd have thought the crowd was waiting to get inside a brand-new Krispy Kreme, because the sellers were so anxious.

That first group of customers included a San Francisco man who was closing his antiques store. He stayed for four hours, unloading collectibles from his car and helping the staff craft accurate auction descriptions. He returned every week with another carload until his store was empty, generating thousands for both AuctionDrop and himself.

Since then, AuctionDrop has sold more than 30,000 items on eBay, goods worth a total of more than $2 million. Its customers include people who have sold on eBay before but got tired of managing their own auctions, as well as those who have no computer or eBay experience at all. In fact, 18 percent of AuctionDrop customers reportedly don't even own a computer.

Using the eBay seller ID "auctiondrop," the company has amassed about 17,000 feedback ratings, 99.8 percent of them positive. That's enough to put the company in the top stratosphere of eBay sellers. AuctionDrop sells an extraordinary 92 percent of items it lists for sale. On eBay overall, only about 41 percent of items listed actually find a buyer.

It's through much trial—and a few errors—that the company has reached this point.

Initially, Adams and his business partners wanted to open AuctionDrop stores throughout the country. They raised more than $6.5 million in venture capital to fuel this growth, and by the summer of 2003 had opened five stores in the San Francisco Bay Area.

"The plan originally was to open stores nationally so we would have AuctionDrop stores everywhere across the country where people could bring things in,"

reveals Drue Miller, initially a consultant to AuctionDrop who was later hired as the company's director of research and marketing. "Along the way, we started looking at how it would make the most sense to grow this model nationally. We looked at opening our own stores and franchising. We were developing a franchise plan, but ultimately what happened was those models just didn't prove to be financially feasible."

As CEO Adams said in a *Wall Street Journal* interview in June 2004, "We ran the model over and over again and it just didn't work."

Instead of building its own network of drop-off stores, which would have been an expensive venture and hard to manage, AuctionDrop found a partner with a presence in nearly every good-sized town in the country.

In June 2004, the company announced a unique partnership with The UPS Store. People who want to sell their castoffs through AuctionDrop on eBay may drop the items off at any of The UPS Store's 3,500 pack-and-ship locations around the country. They fill out a short form, providing an estimated value and other details about the item for sale. The UPS Store, in turn, packages the items and ships them to AuctionDrop's warehouse in San Carlos, California, where the goods are processed and posted for sale online.

Like many of the major airlines and delivery companies such as United Parcel Service (UPS) and Federal Express (FedEx), AuctionDrop uses a hub-and-spoke approach. Whether merchandise is dropped off at a UPS Store or one of the company's remaining AuctionDrop sites, it all ends up at the main 105,000-square-foot Silicon Valley warehouse before being put online.

powerpointer

To gain maximum scale for the least amount of money, form alliances with other companies that can help you grow bigger, faster.

At that processing center, laptop computers, designer handbags, Lladro figurines, unwanted wedding gifts, accordions, and all other items are unloaded into heavy-duty plastic bins that are bar-coded and placed on a conveyor belt. The first stop is quality control, where in-house experts from various fields check the items for flaws and any operating problems.

"If it's a computer," Miller says, "you want to test it, make sure that everything on it works. If it's a camera, you need to test all the functions. You need to check and make sure that there aren't any scratches on the lens [and] that the mirrors are still aligned. There's a lot of inspection and evaluation that goes into every item."

powerpointer

If you operate from several locations, it may be cost-effective to process all eBay items for inventory and shipping at one central site.

If an item checks out, it goes back on the conveyor belt until the next stop—photography.

AuctionDrop has a permanent studio with multiple cameras, high-quality lighting, and various backdrops to suit a plethora of items. Goods are photographed from many angles to show the full detail. Photographers may spend 10 minutes getting the right shots of an item before sending it down the conveyor belt again.

"We get close-ups of any sort of interesting markings, any sort of stickers or descriptions or engravings, any kind of damage, any kind of defects," Miller says. "Buyers absolutely want to know what they're getting before they place their bid. The downside of eBay is you can't physically hold the object. You can't pick it up and inspect it yourself. You're relying on the seller's ability to provide an accurate description."

From photography, items travel down the conveyor to listing stations, where writers grab the bins and pen catchy auction advertisements that are then uploaded to the eBay web site. The staff's goal is to list 300 items during every shift.

powerpointer

Get close-ups of interesting markings and damage so buyers know exactly what they're getting. You should replicate the experience customers would have in a store, where they could pick up the item and inspect it for themselves.

"We have people who are experts in collectibles, people who are experts in consumer electronics," Adams proudly told National Public Radio's *Morning Edition*. "They'll take the item and pull it off and they'll sit down and write a description for it."

The writers are cagey with their listings, using attention-grabbing headlines and a few key tricks of the trade to make sure they attract the maximum number of buyers. One such strategy is to include any common misspellings of an item name.

For example, there's a huge market for Belleek Pottery, collectible china made

in Ireland. But many bidders misspell the name. So AuctionDrop writers will use both spellings—Belleek and Beleek—in their auction headline and item descriptions. That way, they attract a bigger pool of buyers.

"A smart seller will put both spellings, the correct spelling and the common misspelling," Miller offers. The company's writers also use common abbreviations—for example, Mac for Macintosh computers—so they don't miss those bidders who type only the shortened name into their search engine.

The experts the company uses to do its listings are familiar with the vernacular used to describe specific items. For instance, Apple Computer uses such nicknames as Pismo Beach, GayParee, Lombard, and Wall Street to identify its different computer models. AuctionDrop uses those nicknames, as well as the official name of the computer, in its listings. "There are people who are specifically looking for the Pismo Beach PowerBook, so it's important to know to put that in the title as well," Miller adds. "We have a dedicated department of people who research these items and write these descriptions."

powerpointer

Include common misspellings of the names of your items to attract multiple buyers. Also use common abbreviations and nicknames to reach the largest audience possible.

Initially, AuctionDrop didn't have such experts on staff. Customers had to wait in the store lobby—sometimes for hours—while staff members typed up descriptions. But the company soon hired appraisers and other experts to speed up the process. These knowledgeable staffers are crucial to the business now that so many items are coming to AuctionDrop through UPS accompanied only by a simple form with a short description by the owner.

Once an item has been listed for sale, it goes back on the conveyor belt to the shipping department. There it is packaged (with a code corresponding to the eBay item number) and stored in the warehouse until someone buys it. Items that don't sell are either donated to charity or returned to the owner—depending on the seller's wishes.

During its short time in existence, AuctionDrop's business plan has evolved in other significant ways beyond the partnership with UPS.

"The beginning was very trial-and-error, and it really has to be when you're starting an industry like this," insists Miller, who has worked with the company since its first store opened. "You have to be willing to take a lot of chances, and you have to be willing to make mistakes. That's really the only way you're going to hammer the bugs out of the system."

One thing AuctionDrop had to figure out was which items sell best on eBay. At first the company accepted many different items—everything from wedding dresses and household goods to computers and books. "In the very beginning, we did take a wide range of items, some of which were much lower in value," Miller recalls. "Part of it was we just wanted to see how the market was going to respond to this [and] what kind of traffic we were going to get in our stores."

Now, the company is more deliberate about what it sells, aiming for what Miller calls the "sweet spots," those categories that attract the most demand and the highest payoff for the seller and AuctionDrop.

Though you can find just about anything on eBay, not everything on the auction site sells for a high price. AuctionDrop used its own selling experience, as well as data from eBay and research companies like Andale, to identify the hottest sellers. Those top-selling categories are computers and networking equipment, cameras and camcorders, music instruments, audio and video gear, designer purses, jewelry and accessories, and antiques and collectibles. For a full list of hot items, see the "Sell It Now" link on AuctionDrop's web site at www.auctiondrop.com.

powerpointer

Look to sell "sweet spot" items, which attract the most demand and result in the highest payoff for you.

"Those are really the things that perform the best on eBay," Miller says. "They get the most money for the sellers. They're the things that are in high demand, so they get a lot of bidding activity."

Of course, sometimes research can't provide a price benchmark if an item is unusual or unique. If the consigner is willing, AuctionDrop will take a chance and put such items up for bid. Generally, these auctions start at $1 (as do most AuctionDrop sales) to generate high interest among bidders.

In some cases, the payoffs for such items have been high. AuctionDrop sold a bubblegum pink saddle for $700. Another customer brought in a collection of Cadillac brochures that had been given away by dealerships in the 1950s. In pristine condition, they sold for $350. An elderly customer guessed that her husband's collection of cast-iron trucks and Lionel trains would sell for about $75 because they'd been played with and well loved. They sold for more than $2,000. Another customer, who had worked for the owner of the Oakland Athletics baseball team, brought in some old 16 millimeter films of the team practicing and playing games. The home movies, which the team owner had planned to throw away, sold for thousands.

But not everything yields eBay gold. That's why AuctionDrop rejects some items outright. Though it once took in wedding dresses and other closet castoffs, the company no longer sells clothing, with a few exceptions. Such items just aren't profitable and they attract few bidders, Miller says.

"Clothing doesn't do well," she explains. "Personally, I've bought very few items of clothing [online]. I want to be able to try it on. There are very few exceptions. Real high-end things like Chanel suits [are] going to sell because of the name and because of the brand. I think we have a Versace blouse up there now."

Additionally, the company also won't accept any item that has a resale value of less than $75. "Below $75, it just isn't really worth it for us or for the seller," Miller contends. "Anything that sells for up to $200, we take 38 percent of that cost. And there's also an eBay fee. One of the primary motivators for using our service is people have things sitting around their homes that they don't use and they would like to have the money."

Size also matters. At The UPS Store, AuctionDrop will accept only items that weigh less than 25 pounds and are smaller than 130 inches in girth. These rules originally were put in place to make it easier and less costly to ship items. But AuctionDrop has another reason for favoring small, lightweight objects.

Adams has figured out that the key to turning a profit is selling items that have a good "value density." For example, jewelry, personal digital assistants (PDAs), and laptop computers don't weigh very much, so it doesn't cost as much to process or ship them as a motorcycle seat or a television. Relative to their weight, these items fetch pretty high prices on eBay. They have a high value density. Hence, the company focuses on accepting and selling items with low handling costs and that can be transported relatively inexpensively and safely.

powerpointer

Focus on items with high value density—in other words, those that cost little to process and ship, yet can be sold for relatively high prices.

AuctionDrop also avoids many high-end items. The company won't sell anything worth more than $1 million, but there are many other less expensive and rare items that it rejects.

"It has to be an item that has appeal on eBay. There are certain things that eBay just isn't the right marketplace for. When you get into things that are very,

very high-end—the kinds of things you would see at auction houses—generally eBay is not the best place for that," Miller says.

Last year, for example, a customer wanted AuctionDrop to sell an emerald ring that had been appraised at $80,000. She was willing to sell the jewelry for $55,000, which would have meant a commission of about $11,000 for AuctionDrop had the item sold. But after doing some research, a staffer determined that eBay wasn't the best marketplace for her ring.

"When you look at sales in fine jewelry, it's the stuff on the lower end that's moving," Miller said. "It's the lower-quality gems and kind of brand-name signed jewelry—things by John Hardy and David Yurman: nice pieces, but pieces that will go for a couple hundred dollars. There's a lot less activity when you get into the tens of thousands of dollars range."

If a customer insists on trying to auction off a high-priced or rare item that may not attract a huge pool of bidders, AuctionDrop will list it using its premium service. Most AuctionDrop customers pay nothing up front to sell their items on eBay, if they agree to start the bidding at $1 with no reserve. "Generally, what we've found is the ones we start at a dollar sell for more . . . because people think they're going to get a deal," Miller says. Reserves are never used because bidders "don't like having this secret built into the system."

That's why the company developed its premium service for customers wary of leaving pricing to chance. For $19.99, prepaid to AuctionDrop, customers can set a minimum starting bid for their auction. If the item sells, that money is credited back to them. If no one bids, AuctionDrop keeps the fee.

Most AuctionDrop customers choose the free, basic package. But Miller recommends the premium service to people who are trying to sell an item that is valuable but so unusual it might not attract many bidders.

"There are some things that I would not personally start at a dollar," rare jewelry being one of them, she says. "I would start that at a higher price to build some insurance in."

TITANIUM TALK

Drue Miller, the director of research and marketing for AuctionDrop, says it's important to be honest about the items you're selling on eBay. For her company, that means avoiding counterfeit and stolen merchandise and only making listing claims that can be proven.

Q: Designer handbags are hot on eBay and your company sells a lot of them.

A: You have to be careful buying these on eBay because there are a lot of counterfeiters out there. And there are a lot of sellers who don't even realize that

they're selling counterfeit merchandise. Part of the value that we offer, not just to sellers, but to buyers as well, is we authenticate everything.

Q: How do you do that? These days, it seems every teenager has a Louis Vuitton bag.

A: Yes. And most of them are fake.

Q: How do you know the ones you're selling are the real thing and worth thousands of dollars? How do you authenticate an item to prove it's not a $20 knockoff? Do you rely on serial numbers and things like that?

A: There are lots of little details that you [need] to look for. I'm the head of the research department here and this is kind of my area of specialty. I've trained our staff on what to look for in these things.

It's a combination of a lot of different things. At the most basic level, you look for the quality of the craftsmanship. Chanel is not going to ship a purse that has crooked stitching, loose threads, misaligned patterns, or any signs of sloppiness. Everything is going to be absolutely perfect on that item.

In some cases it's going to be a serial number. Louis Vuitton, in particular, has a numbering system that they use in their purses that sometimes makes it very easy to tell when a purse is fake because one digit in the number will be off. It's actually not a serial number. It's a date code that shows when and where the purse was produced.

I have some fake designer purses sitting here in my office that I use as training materials for the staff. I have one Louis Vuitton purse—it's the one with the monogram pattern on it—and it looks great. The leather feels very high-quality. The printing of the monogram pattern is excellent. The lining feels very nice. It has the little brass padlock. The one thing that's wrong with it is there's one digit off in date code, and that's key.

Q: What happens if you get a fake?

A: If we receive a purse that we think is fake, we will not sell it on eBay. People have sent us fake purses or purses that we could not prove were real, and we rejected them. We said, "We're sorry. But we need to be able, as a company, to stand behind everything we sell. And we cannot say for certain that this is real."

Q: What's the reaction you generally get when you refuse to sell an item because its provenance is uncertain?

A: It varies. Sometimes they know that it wasn't real. They bought it for $25 in Chinatown. Other times, they didn't realize that it was fake. Maybe their

husband gave it to them and the husband is going to be in a lot of trouble. Or maybe they're just covering for wherever they got it.

Q: Obviously, you have to do this authentication process with items other than designer handbags. In what other merchandise categories does this issue arise?

A: Another area is collectibles, and in particular, anything that's autographed. Say we get a baseball that claims to have Barry Bonds' signature on it. If it comes with a certificate of authenticity, we do a little research to make sure that this is an actual legitimate company that provided this [certificate] and it's not something somebody whipped up at home on their computer and printed out. Then, we can list it with confidence.

If something like that arrives without any kind of paperwork, we may reject it or we may decide to sell it. But we [will] put a disclaimer in the listing saying we cannot guarantee the authenticity of this item because it wasn't consigned to us with any paperwork. So, there's a little buyer beware there.

Q: What about electronics?

A: We will not accept any electronics that don't have serial numbers. We received a laptop once and the serial number had been scratched out. We wouldn't sell it because chances are it was stolen.

When people drop things off at The UPS Store, there's a form that they fill out, and they have to show their driver's license. We have to see some form of photo ID as a deterrent to thieves.

Q: Have you had much of a problem with fake items or other forms of fraud? Or do you think you've put the steps in place to avoid that?

A: I wouldn't say that it's been a significant problem. Few crooks are going to go through us. There are more efficient ways for them to sell the things that don't involve them showing ID. That stolen laptop was really an unusual situation. Every couple of weeks, we receive a few purses that we have questions about. Most of our customers are very honest people who just want to get rid of some things. They need money and they need space.

3

profile

Carsyours

Scott Dubinsky has the kind of sales stats most eBayers would envy. In five years, Dubinsky has sold only about 700 items on eBay, but that's been enough to earn him a Titanium PowerSeller rating and feedback from more than 300 customers—all unanimous in their praise of his products and business practices.

Every auction Dubinsky has running gets bids because he starts the bidding at rock-bottom prices—never higher than a dollar. Yet, Dubinsky's average sale is $40,000. He once even sold an item online for $250,000. Still another of his auctions closed for $210,000, $60,000 higher than the manufacturer's suggested retail price for the product.

Dubinsky, who was an automobile wholesaler for 15 years, now sells vehicles directly to consumers through eBay Motors, the auction site's biggest single category. In five years, Dubinsky has sold cars to buyers in 48 states and six countries through eBay. Only five people who bought cars from him online were in his local market.

More than a million cars have been sold on eBay since its inception in 1995. What's more, 11 million people reportedly browse eBay's pages daily looking for cars, trucks, and other vehicles. In fact, someone buys a car on eBay every 60 seconds. Most of these auctions are for used cars, and three-quarters of them are sold to out-of-state buyers. EBay attracts more unique shoppers every month than Cars.com, AutoTrader.com, and Yahoo! Autos combined.

Perhaps more than any other category, eBay Motors is a seller's market with the potential for huge growth and room for many more merchants. EBay accounts for just 1 percent of the used car market in the United States. And there are more bidders than there are cars. According to the *Wall Street Journal*, each car auction typically gets eight bids, twice the overall average for other auctions.

"We are supply constrained," eBay CEO Meg Whitman told the newspaper. "We need more cars."

In the beginning, most skeptics believed that only new cars would find a market on eBay and that delivery challenges would hinder sales. But used cars are among the hottest sellers on eBay, and they're driving the phenomenal growth of the eBay Motors segment. According to the company, eBay has evolved into a mass market where everyday people are buying everyday cars.

The eBay Motors division was started in April 2000, and in its first full year sold $1.5 billion in cars and parts. In fiscal 2003, the division's sales had skyrocketed to $7.5 billion, accounting for nearly a third of eBay's gross merchandise sales, which is the total value of all items sold through the auction site.

Dubinsky, who until then had made his living wholesaling vehicles to car dealers around the country, posted his first car for auction on eBay in February 1999.

"I saw what I perceived as an opportunity," he says. "So, I started fiddling with it as just a little aside. It really became what I thought it would be, which is a fruitful source of community members interested in reaching out of their own market into other markets for great pedigree and great price-point cars."

Of course, things didn't happen quite as smoothly as that. After all, Dubinsky helped pioneer the eBay Motors category. He was hawking used cars online back when people were still making the argument that no one would buy such a high-ticket item they hadn't seen from someone they didn't know.

Even Dubinsky was surprised when the first bids started coming in. Ultimately, he believes buyers are impressed by the no-pressure atmosphere, his 100 percent positive feedback rating, and the wholesale prices that eBay makes available to retail customers.

powerpointer

Shopping for cars online allows buyers to take advantage of a no-pressure atmosphere, while paying wholesale prices.

Dubinsky gets his inventory from F.G. Downing's Towne Automotive Group. The family-owned company operates 10 dealerships in western New York State with annual sales of more than $140 million.

It took some wheedling before Dubinsky convinced the dealership owners that eBay could be another revenue source, and not a waste of money.

"They said it couldn't be done," he remembers. "When I first tabled the idea here, they said, 'It will work on new. It will not work on used. People won't buy sight-unseen used cars.' And it went just the opposite."

Pioneers like Dubinsky recognized eBay's potential as a marketplace for cars even more than the web site's executives did. In 1999, Simon Rothman, then in business development at eBay, was trolling the site for toy Ferrari model cars when he found two real Ferraris for sale. He discovered that there were another 200 cars up for bid on eBay. To promote itself to high-end car collectors, eBay bought Kruse International, which runs car shows around the country. By August 1999, eBay had a separate merchandise category for cars and launched the Motors division eight months later.

Rothman is now the global vice president and general manager of eBay Motors. He has said that at first eBayers were primarily looking to buy and sell collectible cars. That soon evolved into individual-to-individual sales of exotic vehicles like Lamborghinis and BMWs. Then small independent dealers, like Dubinsky, began embracing eBay as a distribution channel that gave them national reach. Now, eBay is trying to lure more big automobile dealerships to sell on its site.

Dubinsky, with the help of an assistant, sells between 17 and 20 cars a month on eBay, bringing in about $7 million annually from online buyers of almost exclusively used cars. With much lower costs, eBay delivers the same sales volume that one good on-the-lot salesperson would do, Dubinsky observes.

"A good walk-in retail salesperson in a store will sell 17 to 20 units a month," he says. "In this business, you've got to do 10 to stay alive, to stay in the job. If you're doing 15, you're good. If you're doing 17, 20, 22, you're top-shelf. What I tell dealers is this really brings another good salesperson to the store."

Dubinsky is truly a salesperson instead of an online auctioneer. He can't work the way most successful eBay sellers do. When you're selling cars, it's not enough to take good pictures and write a compelling item description, Dubinsky insists. "When you're selling cars online—to people who live halfway around the country and won't get to test-drive the vehicle before writing a check for thousands of dollars—you have to develop a relationship with them and give bidders a reason to trust you."

A high feedback rating also helps.

powerpointer

When selling high-priced items, such as cars, it's essential to build a relationship with bidders. You must get them to trust you. High feedback ratings go a long way in this regard, as do honesty and personal service, including the willingness to talk with customers on the phone.

Though he'd bought collectibles on eBay before, Dubinsky created a separate user ID, "carsyours," for his car sales. He knew that eBay buyers and sellers judged one another based on their feedback ratings. And though he had to start selling with a feedback rating of zero, Dubinsky believed that having a separate selling-only account would help his reputation later because bidders would see that his feedback score was based solely on his ability to deliver a car as promised.

Indeed, his customer feedback postings are very telling, with many claiming that buying online from carsyours was their best car-buying experience:

"Unbelievable service! My best experience with a car dealer EVER!"
"Thank you for the best and easiest car-buying experience and for a quality vehicle!!"
"Good to go; super people to do business with. Scott was right. GREAT CAR AAA+++."
"Very good experience for a first-time eBay buyer."

Dubinsky has advocated that eBay create a separate PowerSeller ranking system for car sellers. He also thinks the web site should modify its feedback rating system so that car sales are aggregated—and counted separately—from other sales and purchases eBay users make.

"If I go on today and buy a hundred $2 items, I can suddenly get myself 100 pieces of feedback," he says. "You can go buy yourself feedback every day of the week. When people are buying cars, they want to see [feedback about] somebody selling cars, [because they are] not just somebody [who] is buying trinkets on there."

When it comes to selling cars on eBay, feedback is only part of the equation.

"EBay is about the deal," Dubinsky says. "Yes, the car must pass muster, but it's more about trust and the art of that deal . . . than anything else. A car deal involves 10 to 15 different promises, at minimum. And those promises have to be followed through."

Dubinsky's partnership with Towne Automotive helps strengthen his position on eBay because he can offer a wide variety of inventory, including certified used cars. "It makes you that much stronger when you have access to that kind of volume merchandise, both new and used," he says.

Through the dealership, he's also able to offer bidders financing options, other than what's available from eBay, local banks, and online. "You can't get to the finance and money portion and start to stumble," he notes. Incidentally, about half of his customers pay cash by wire transfer; the others finance their car purchases.

powerpointer

For high-ticket items like cars, offer financing options (most likely outsourced through another vendor) to improve your chance of making the sale.

Cars are different from almost every other item up for bid on eBay. You don't sell them the same way you sell a $10 T-shirt. And people don't buy them that way, either.

"A couple days ago, I went in and bought my daughter a cover for her riding helmet, and that helmet was $11.95," Dubinsky shares. "At those prices, I'm clicking, I'm buying. I don't need to ask questions. I don't care."

But with cars, with thousands of dollars at stake, people need more information than they can get through a few hundred words on a computer screen. "It's a tremendous amount of money. It's not the way we traditionally buy cars," Dubinsky says of eBay Motors. "People go to car lots, kick the tires—not because they know what they're looking for, but because we've been taught that's the way we buy cars."

With his auctions, Dubinsky does the tire kicking and the test-driving for his customers. The process begins when an eBay-worthy car comes on the lot. Dubinsky begins compiling vital information about the vehicle: where it came from, how many owners it had, its mileage, its physical and mechanical condition, how it was driven and where, its vehicle identification number, and the automobile history report.

powerpoint

Kick the tires for your customers and tell them everything they need to know about the car, from how the engine runs down to the smallest scratch.

Dubinsky writes his own auction listings from scratch every time, never using canned information from other sources or third-party auction templates. His ads generally include a dozen or more photographs showing the car's interior, exterior, and engine and close-up shots of interesting features or flaws. But compared to auction listings for many consumer goods, Dubinsky's car ads are pretty lean on details. His listings include the kind of information a potential buyer would

read on the sticker on a car's window, but not what that buyer would glean from test driving a vehicle or walking around the dealership's lot.

Consider this recent carsyours listing for a 2003 Honda Accord:

Silver exterior/black leather interior
26,845 miles
Automatic
Power windows, locks, mirrors
Dual power seats
Dual heated seats
AM/FM stereo, 6 disc
Moonroof
Homelink
Cruise/tilt
Keyless entry

That's probably not enough information to convince most shoppers to bid, and that's fine with Dubinsky. He believes it's his job, not eBay's, to actually sell the car. "All you want somebody to do is find you and find your product," he says. "You have to do the job from there. I want to incite them to know me."

Dubinsky encourages shoppers to call or e-mail him before bidding on one of his auctions. He lists his e-mail address and cell phone number multiple times in each auction listing, on his web site at www.carsyours.com, and in his eBay store.

"They want to get in there and bid on it, but they want to know something about it first," Dubinsky says. "In doing this for over four years, I'm surprised when someone doesn't write that e-mail or pick up the phone."

powerpointer

Give people contact information—both e-mail and phone—so they can ask you questions about the car. If you don't act as the bidder's surrogate, you won't make the sale.

When a bidder calls, Dubinsky puts on his cell phone's headset and heads for the used car lot so he can serve as the bidder's surrogate. "I will insist on a panel-by-panel and component-by-component walk-around," he says. "I disclose every stone chip on it, every scratch.

"In this business, long distance, I don't look for any problems."

With each of his auctions starting at just $1, Dubinsky gets numerous calls and e-mail messages from potential bidders. Sometimes the messages are face-

tious—someone will offer $1.25 for a Mercedes. Those not-so-serious queries create extra work for Dubinsky and his assistant, who personally answer every e-mail message. But on the flip side, Dubinsky says, the low starting prices get more people interested in his cars and in bidding against one another.

"I'm looking for that frenzy. As a shopkeeper you want people looking in your window," he maintains. "That's what that low starting bid creates—people looking in the front window.

"My thinking was always that there was a group of shoppers that shop the bid column, because I do it that way. If you see an item with 15 or 20 bids, you're going in to take a look. There's credibility in volume.

"It creates the activity you have to be willing to address," Dubinsky adds. "If you're not willing to take those phone calls and e-mails to make the time investment to find a buyer in these, then that system won't work [for you]. You're better off saying, 'This car is $32,995. Call me if you're interested. If not, see you later.' "

Early on, it became pretty evident that Dubinsky would need administrative help if he wanted to make his high-touch online selling strategy work. Three years ago, he hired an assistant, Jennifer Quigley, to personally answer routine bidder e-mail messages and tend to the paperwork after an auction closes. "I didn't want to get bogged down in paperwork. I wanted to do what we're doing here, which is talking because that's what I do best. I need to be selling, and Jen helps me with all the background work," he says. Another employee, recently hired, helps with auction photography.

Though he starts bidding at just $1, Dubinsky isn't willing to let a car sell for such a rock-bottom price. He sets a reserve, or minimum selling price, on most of his auctions and also gives bidders a chance to purchase at a "Buy It Now" price. He uses data from Manheim.com, a leader in wholesale car auctions, to set these prices. "I will offer the eBay end user the same price I would give to a dealer," he says.

powerpointer

Even with high-priced items like cars, start the bidding at $1, but set a reserve price so you don't wind up giving the vehicle away at a big loss. You should also offer a "Buy It Now" price, based on fair market estimates for the car.

Often, the bidding doesn't reach the reserve Dubinsky has set, and the auction ends without a sale. When that happens, he tries again.

He might post 100 different auctions every month, with only about half of them for cars that have never been listed for auction before. Of those, about a third—17 cars—will sell.

"Some cars I've listed 10 times," he reveals. "I don't have a fast rule [of how many times the same car can be relisted]. I know that it's such a unique audience. I don't know if the right audience has seen that car yet. I have to assume that the right consumer hasn't seen it yet. And frankly, it's cheap enough to make that assumption."

EBay charges sellers $40 to put a car up for auction, plus an additional $5 if the seller sets a reserve price. The web site collects another $40 if the vehicle sells. So, if Dubinsky posts the same car for auction 10 times, he owes eBay a little more than $400 in listing and reserve-price auction fees. In the Buffalo market, the dealership pays nearly that much—$375—in advertising and other expenses to bring a single buyer onto the lot. Nationally, eBay estimates that dealerships spend even more in local advertising to cultivate each customer.

powerpointer

Remember that you'll have to pay a separate listing fee each time you put a car back up for auction. To find a buyer, you may have to relist a car for auction multiple times.

"It costs $40 for a listing, but about $500 in advertising to get a local buyer to buy a car at a local dealer," eBay's Rothman told *BusinessWeek* online reporter Amy Tsao in a July 2004 interview. "You get on average eight different buyers who bid. So, cars aren't sitting on the lot as long."

Dubinsky says his annual eBay bill is a bargain at about $60,000, roughly the cost of three full-page color newspaper ads. "The five grand that I spend a month on eBay is really nothing compared to the advertising sources that other departments [in the dealership] use," he contends.

Because of his partnership with Towne Automotive, Dubinsky has his pick of many different makes of cars: Chrysler, Mazda, BMW, Ford, Hyundai, MINI, Jeep, Isuzu, and Lincoln/Mercury, as well as any trade-ins that come in. But he's deliberate about the vehicles he auctions through eBay, choosing what he considers high-quality and high-value cars and offering them to retail customers at wholesale prices.

"They must be very clean, pristine, and have low mileage," he says.

powerpointer

To sell well on eBay, cars should be very clean, pristine, and have low mileage.

Through the years, Dubinsky has learned that most eBay car shoppers share some common characteristics. They typically are a very high-end audience, he says, who are very businesslike and no-nonsense in their approach to buying a car. They're not people who want to be sold on one model of car over another. Instead, they come to eBay with very specific ideas about the type of car they want to buy and the price they want to pay.

Dubinsky attempts to match his inventory with typical buyers' preferences. He has had good luck—and high auction closing rates—with Ford diesel trucks, Porsches, Mercedeses, Toyotas, and Hondas. "The Honda and Toyota buyer is really prolific on eBay," he says. "Some of the lower-end cars do better on the gross [and offer] higher returns than a higher-end car."

Indeed, the three top-selling vehicles on eBay are the Honda Accord, the Honda Civic, and the Ford F-150 truck, according to Rothman of eBay Motors. Unique and collectible cars, like the made-to-order Ford GT Dubinsky sold for $60,000 over the manufacturer's suggested retail price, also do well on eBay.

powerpointer

Keep in mind that eBayers don't want to be *sold* a car. They come onto the site with a specific type of vehicle in mind, along with the price they are willing to pay for it. Plan your auctions, and write your listings, accordingly.

EBay tells its Motors sellers that the "unique" label doesn't apply to just collectible cars and exotic vehicles like Ferraris and Lamborghinis. Cars painted an unusual color might benefit from national exposure on the site. Older cars with low mileage are unusual, eBay says, as are newer cars with higher mileage accumulated through highway driving. It may be easier—and more lucrative—to sell these vehicles online than through local channels. Whitman says eBay Motors works best for older inventory, those vehicles that have been on the lot for 45 days and are bound for the wholesale market. The reason: The web site typically garners a higher selling price than a typical wholesale auction.

Convertibles are good candidates for eBay, particularly during the winter months when they're not typically showcased at dealerships. A convertible that would be overlooked by shoppers on a Minnesota dealer's lot might be snapped up in January by a bidder in sunny Miami or temperate California.

EBay's Rothman maintains that the web site provides a really attractive market for dealers. He points out that if you're a dealer in rural Arkansas or Georgia, your marketplace is inherently local. By putting your car on eBay, you instantly get a national market for your vehicles—along with a national market

rate. And you reach millions of potential buyers to whom you otherwise wouldn't have access.

TITANIUM TALK

In five years, Scott Dubinsky has sold about 700 cars through eBay Motors, each with an average price tag of $40,000. Cars are big-ticket items, and they are big, too, not exactly the sort of thing you can drop into a mailbox. Dubinsky talks about how he gets cars from his lot in Buffalo, New York, to customers who live across the country and around the world.

Q: When a car sells, how do you handle delivery of it to the customer?

A: The transportation is done by trucking in the United States and by air and ocean to Europe and overseas markets. The consumer pays the transport bill. I do the shopping for the transportation for them. I'm better at it, I do a lot of it, and I know I can get it done 100 percent of the time. I just can't see selling a car and then asking somebody to go shopping [for a transport company]. There are some providers on eBay that do a good job, such as Dependable Auto Shippers.

Q: When the buyer is in the United States, how long does it typically take for you to get the car to them once the auction has closed and you've been paid?

A: I can have a car delivered to Florida within a week, and to California and the Pacific Northwest in 7 to 14 days. I know how to get fast trucking service. I kind of learned a little about that over the years.

Europe is a little bit different because there are customs issues. I do a lot of business out of John F. Kennedy Airport. I can have that car to the air terminal in two days, and [the timing of the delivery] goes from there based on the carrier and on the duty.

I have four customers in Hawaii, and I can have a vehicle transported there inside four to six weeks. With the ocean transport, if you get it to the dock at a certain time, it gets to its destination a week later. If you missed that boat, it'll take you four more weeks.

Q: Realistically, what should a consumer expect to pay to transport a car that was purchased on eBay?

A: Into what market?

Q: Why don't we say California because that's on the other side of the country from where you are in Buffalo, New York?

A: I buy that cheap. A regular-sized product—a sedan, a small truck, things like that—can get to southern California or the Bay Area for around $1,000.

Q: Do your existing relationships with freight carriers and the fact that you give them repeat business help you get lower delivery prices?

A: It's more shopping around for it than anything else. There are some relationships [but the prices I get are] more a function of looking for it and knowing where to look.

Q: Do you ever have customers who say, "No, I don't want to pay that $1,000 for transportation; I'll come get the car myself?"

A: I've had people come from Salt Lake City, Los Angeles, and Danville, California. They've come a long way. I had some people two weeks ago from Carson City, Nevada.

Q: Did you pick them up at the airport?

A: I do all the pickups myself. I don't send drivers or porters. And the reason I do that is the few customers that I do get to see, that's an extra 30 minutes we can spend together, and it's kind of fun. If someone makes that commitment to buy a car from me and travel cross-country to pick it up, I'm going to go get them myself. It's kind of nice we get to visit.

I've had some people come a long way—and not only to save the money, but to visit Niagara Falls and eat Buffalo chicken wings. It's a road trip. If you have the time, it's fun to do.

Q: Are there other reasons a customer may opt to pick up the car in person?

A: Some people want to come in because as many steps as I take them through, they still want to put their hand on the car and inspect it themselves before they hand off that check. And that's good to do, too. I tell customers, "If you come here [to pick up a car] and it's not as I tell you it is, I'll take care of all of the expenses."

Q: So, you want to make sure all your customers leave happy—and that they leave with a car?

A: I would not use their time—or mine—or my money imprudently.

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profile

Cord Camera

Like many eBay businesses, Cord Camera began in its founders' home. But that was years ago, before eBay revolutionized how people buy and sell goods at both the retail and wholesale level. This company's genesis came even before there was such a thing as the Internet.

On April 2, 1954, brothers Cushman "Jick" Cordle and William "Bud" Cordle and their mother, Laura, opened Fast Photo Service in the basement of their Ohio home. Their wholesale black-and-white film processing company soon outgrew its underground headquarters, and the Cordles moved their business to a building near Ohio State University in Columbus, Ohio. In no time, they began selling photo equipment and supplies, in addition to running a photo development lab. By 1957, the wholesale side of the business had grown from just a few accounts to 68. The Cordle family sold that part of the business in 1957 to Tru-Photo and shifted their focus to selling equipment and photo developing services to retail customers.

Today, Cord Camera is the largest photographic retailer in the Midwest with 37 stores, 38 if you count its eBay operation.

The Cordles—the founders and later their sons—have never let their venture stagnate. Through the years, they've embarked on various ventures to improve, strengthen, and evolve the business.

The founders set the tone for this business philosophy in the 1950s when they sold the wholesale photo lab and put their efforts into retailing. When the family opened its second store in 1966, they installed 22 labs inside the building, renting out space and time to customers who wanted to develop their own photographs. Later, Cord Camera would open the first color mini photo lab in Columbus, Ohio. In 1995, the company bought out another camera retailer that had three stores in central Indiana. Three years later, Cord acquired three more stores, establishing its presence in northeastern Ohio.

It therefore came as no surprise when the company began exploring ways to sell goods outside of its traditional bricks-and-mortar boxes in 2002.

Cord Camera, which operates under the eBay name "cordcamera," is one of the up-and-coming camera and photo equipment sellers on the auction site. In its first year, with an online operation maintained mostly by one man, the company sold $1 million in merchandise on eBay. Its auction revenues doubled in the second year and approached $3 million in 2004.

Joe Myeress is the man behind Cord's eBay venture. Like most eBay sellers, Myeress started out as a bidder. He's a huge fan of Fox's *The Simpsons* and collects memorabilia from the show.

"That is what got me hooked on eBay," he says. "There are over 5,000 [*Simpsons*] items at any given time up for sale. EBay is a great place to buy or sell *Simpsons* items."

It didn't take long for Myeress to realize that eBay might also be a great place to sell cameras and other inventory from Cord's large network of stores. Specifically, he realized, Cord could get rid of overstocked and used display items through the web site.

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EBay is a great forum for selling overstocked and display items that might not otherwise have much value.

"Because we have 37 stores, you wind up with a lot of display cameras," Myeress says. "When the next model comes out, you have 37 used items."

In the beginning, Myeress alone managed Cord's online auction business, photographing the items and creating and posting auctions using eBay's online listing tool. He started auctions whenever he could find the time, sometimes spending hours just preparing a small number of listings.

On Mondays, he processed payments, packed, and shipped those orders that had cleared over the weekend. On Tuesdays, he'd photograph the next batch of cameras and supplies to be sold and begin creating those auctions.

Initially, sales patterns were sporadic—"kind of a roller coaster," Myeress recalls. On those weeks when he had time to post lots of auctions, sales were strong. Other times, if Myeress got busy with outside work, his weekly sales tallies—and his ability to service the eBay orders—would suffer.

"You can only do so many things efficiently before you're not answering e-mails or you're not shipping on time," he notes.

Within nine months, Myeress convinced his employer to hire another person to work exclusively on the company's eBay auctions. By that time, Myeress was operating the auction business more and more like another Cord Camera store—but without the required overhead of a bricks-and-mortar operation. He was no

longer dealing just in overstock or display merchandise, but was posting new items for sale on the site, too.

Myeress had proven to his bosses that eBay was a strong and steady sales channel, and he was now ready to increase the volume of business the company did online.

So, about 18 months into the eBay venture, he began shopping for auction management software. Myeress and his staff researched products from about four companies before settling on Auctionworks, a software product from an Atlanta-based company now known as Marketworks.

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Once your business starts to take off, purchase or download free auction management software—such as Marketworks or Turbo Lister—to automate common tasks and make your operation more efficient.

"They just seemed to have the functions that we were looking [for] and it was user-friendly," he said. Other auction management programs the company tested "were more complicated and didn't seem like they would grow with us."

The Auctionworks software makes it easier—and much less time-consuming—to post items for sale on eBay. It automates certain tasks, making it simpler for the company to collect payments, handle the flow of auction-related e-mail messages, and respond to customer questions promptly. Within the first month of buying the management software, Myeress doubled the number of ongoing eBay auctions.

"If it wasn't for Auctionworks," he says unequivocally, "we would not have been Titanium PowerSellers."

Before signing up with Auctionworks, Myeress was using eBay's listing tool to create all his auctions. That standard listing tool, which is constantly evolving, is very user-friendly because it walks you step-by-step through the process of creating an auction. But it's not the best solution for volume sellers with hundreds of items to post for sale.

With auction management software—be it Marketworks, eBay's free Turbo Lister, or one of the myriad competitors—users save time by storing such standard information as payment terms, shipping details, company logo, and the like. Cord Camera, for example, routinely sells the same items through its eBay auctions. Myeress and his staff don't have to start from scratch when they list these items. They simply call up the stored listing in the Marketworks database, check the price, and then post the new listing with just a few clicks of the mouse. This

takes just a fraction of the time it would to create a brand-new listing using eBay's Web-based tool. And that's crucial for a company that has as many as 350 auctions ongoing at any given time.

The items Myeress sells on eBay—cameras, lenses, scrapbooking supplies, flash meters, camera bags, film, digital media storage, and camera accessories—represent just a fraction of the company's available inventory and annual revenues. Because Cord Camera is still a privately held, family-run business, Myeress won't say how much the company sells or earns annually or what percentage of its revenue comes from eBay.

There are quite a few differences between Myeress's virtual store and the chain's retail locations. The most striking contrast is this: Myeress moves $3 million worth of merchandise every year with a staff of just three people, including himself. One employee photographs any new items to be posted for sale and creates the auction listings for these goods. Another completes each sale, processing payments and shipping the products by FedEx to the auction winners. Myeress is in charge of fraud control and customer service for the auction sales. He responds to any e-mail questions from bidders. On busy days, he's also ensconced in bubble wrap and foam peanuts to ensure that paid-for items are shipped out to buyers promptly.

"If I sell it, it goes out—at the latest—the next day," Myeress insists. Every order goes out with a packing slip and detailed invoice that includes the auction number, an itemized list of charges, the buyer's details, and the seller's details. It's the same sort of information you'd get if you bought something online from Williams-Sonoma or Amazon.com. Yet, surprisingly, many eBay merchants don't include packing slips when they ship out orders, Myeress notes. "It doesn't look professional," he says of such oversights. "It looks like you're working out of a basement somewhere."

powerpointer

Include a packing slip, detailed invoice, and printed copy of your eBay listing with every shipment so buyers know exactly what they're getting and how much they're being charged.

In Myeress's case, he's working out of a warehouse. But his customers don't know it.

Unlike the other Cord Camera locations, Myeress's physical "store" doesn't have to be inviting to customers as long as his online storefront is. In fact, he works in a rather Spartan, uninviting space in the company's warehouse in

Columbus, Ohio. All the eBay merchandise is stacked on shelves and corralled in a metal cage. A door in his office leads to the warehouse so Myeress can access his inventory quickly.

"Anything that we have online, I can walk out and grab within seconds," he says.

Because Cord Camera now sells mostly new items on eBay, the company doesn't have to tag every one of its auction items with an inventory number that corresponds to the eBay auction number. This makes it quicker and easier for the company to fulfill its orders. When an auction ends, shippers simply pull a new box from the shelf and package it for the customer.

Only used items, such as store demonstration cameras, are labeled with an inventory number to match the auction number. That's done to ensure that the winning customer gets exactly the product he or she bid on. "The only thing that's tagged are the demo cameras because they're one of a kind," Myeress says.

Cord Camera allows its customers to pay by personal check, money order, credit card, or PayPal, or through the Marketworks checkout. Customers who are wary of sending their credit card information over the Internet can phone in the information.

powerpointer

Accept a variety of payment forms to reach the largest possible audience.

Making sure that merchandise is delivered as described is a keystone of Cord Camera's eBay success. Unlike in the physical stores, Cord's online customers don't have the luxury of trying before buying. They don't get to examine a camera for nicks and scratches, test how it fits in their hand, or see how well a zoom lens works. So, the company's online staff does that for them, using multiple pictures and detailed item descriptions that attempt to anticipate any question a customer would have.

For instance, Cord Camera informs bidders in three separate places in each auction listing that the company doesn't ship outside of the United States unless payment is made by money order or through a transfer service like Western Union. Both the auction's headline and description reveal whether an item is new or used. Shipping methods and payment terms are repeated throughout the listing as well.

But the photo tells the real story. "The most important element of the listing, I believe, is the photo," said Myeress, who also continues to bid for and buy items

on eBay. "The picture is your first impression. If the picture is awful, I wouldn't even read the description."

Cord Camera uses a Nikon Coolpix 5400 to photograph items for eBay. The 5.1-megapixel camera retails for less than $500, and it's actually a more expensive and better-equipped camera than Myeress recommends for most eBay sellers.

A 2- or 3-megapixel camera with a price tag of less than $400 is sufficient for most sellers, except those needing to photograph very fine details, such as a potter's mark or small chips in china. Then, Myeress said, it's a good idea to invest in a camera with a macro setting, which allows the camera to focus in on very close objects.

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Use, at minimum, a 2- or 3-megapixel camera with a macro setting capable of focusing in on very close objects to photograph items being put up for auction.

"All you need is a camera that takes a sharp picture," he says, noting that he once talked another eBay merchant out of buying an $1,800 camera. "I always say stay with a brand-name camera."

How you photograph the item is as important as the camera. In the warehouse where Myeress stores his eBay merchandise, he has set up a small studio. The simplicity and sparseness of this studio belies its importance to the company's online venture.

In a corner of the inventory cage, a table is draped with a white background cloth. Three inexpensive fluorescent lights, purchased from Wal-Mart, hang in the corner studio, casting light on the item to be photographed. The camera rests on a tripod, and it's connected to a 19-inch television screen, so the photographer can preview images before transferring them to the computer.

"It's very functional, and that's all we need," Myeress says, adding that the entire setup, including the camera and the television, cost less than $500. "I always stress the photo has to be sharp and well lit."

Unlike many Titanium PowerSellers, Cord Camera doesn't begin its auctions at a penny. Such a pricing strategy doesn't work for big-ticket items where there's a slim profit margin between the wholesale and the retail price, Myeress maintains. In the past, he has listed cameras with an opening bid of a penny and then set a reserve—or minimum selling price—to ensure the company wouldn't lose money on the sale. Often, those auctions would end without a sale because no one bid the reserve amount.

Instead of paying extra fees for a reserve price auction, Myeress starts the bid-

ding higher, at what would have been his reserve price. That way, the company is sure to make money on every completed auction. That also keeps the company from giving more money to eBay, which keeps the reserve auction fee whether an item sells or not.

"As a buyer, I just hate reserves," Myeress says. "I'd rather look at an item and [know] it's a hundred dollars. If it's [being sold with] a reserve, I might spend an hour going $20, $25. I would rather just have the price right now."

powerpointer

For high-ticket items, where you risk losing money if the bids are too low, start the bidding at an amount equal to what you would normally list as the reserve. Don't keep bidders guessing as to how much you're willing to take for an item because that's likely to cause frustration and drive them away from your auction.

On eBay, a feedback rating proves a company's legitimacy and keys customers in to any potential problems. Cord Camera's feedback rating is 99.9 percent. Out of more than 7,600 transactions, only two customers have posted negative feedback (or complaints) about the company's products or service.

The near-perfect rating doesn't mean that Cord Camera never makes mistakes with its online customers. But if there is a problem, Myeress's rule is to act quickly to make things right. He knows that even if someone never intends to shop with Cord Camera again, a negative comment from that customer could sway another potential buyer to shop somewhere else. Feedback works just like word-of-mouth advertising; one unhappy customer often speaks louder than thousands of satisfied ones.

"We're not perfect. We will maybe leave out a memory card," Myeress admits. But it's how you respond to the problem—by promptly making the mistake right—that keeps customers happy and discourages them from leaving negative feedback. "I think most people are [forgiving of our mistakes] because in the end you take care of them."

powerpointer

Take care of any mistakes and other problems promptly to avoid getting negative feedback from your customers and to engender confidence.

Not all companies operate the same way. Myeress knows this because he studies eBay feedback all the time—his own, sellers he's thinking of buying from, and the competition.

"We always read our competition's negatives" to see what they are doing wrong, Myeress reveals. That gives his company a competitive advantage because it helps Myeress clue in to those things that bother buyers the most.

powerpointer

Read negative comments posted against the competition to see what they're doing wrong and to find ways you can offer better products and service.

From reading others' feedback ratings, he's learned that bidders hate:

- ***Companies that don't ship auction goods promptly after payment.*** There is no excuse for taking two weeks to fulfill an order for a product that was supposed to be in stock.
- ***When wrong items are shipped.*** Customers want to receive exactly what they bid on. If there is a mistake, bidders want it to be corrected quickly and without any additional expense on their part.
- ***Ineffective customer service departments.*** When customers have questions, problems, or concerns, they want them addressed quickly.

Myeress still handles all of Cord Camera's online customer service issues, taking phone calls and at least a hundred e-mail messages daily from bidders and buyers with questions about the company's auctions. He even responds to such queries as "How much is shipping?" and "Is this new?"—things that are already addressed in every Cord Camera auction ad.

Cord maintains its high feedback rating by shipping quickly. Myeress's benchmark is that an item should go out the same day—or the very next day—after payment is received. The company uses FedEx for its shipments, so items arrive promptly. Such quick turnaround, Myeress believes, means the product arrives when customers are most likely to leave positive feedback. "I think if you get it quick, you're still excited about the purchase," he says.

powerpointer

Ship items quickly so customers will receive them while they are still excited about the purchase.

TITANIUM TALK

Fraud is a persistent issue online and on eBay. Some bidders buy high-ticket items using stolen credit cards. Other scammers try to steal money and merchandise using convoluted wire transfer schemes. Joe Myeress of Cord Camera reveals how he has successfully fought fraud while selling on eBay.

Q: You have a pretty interesting story about how you helped to stop a stolen credit card ring in North Carolina. Tell me about that.

A: We had a customer who called up saying, "I've received a package and it's in my name, but we didn't order anything from you." As we were on the phone, somebody knocked on his door claiming the package was misdelivered to his address. The suspicious caller told [the man at the door] that he didn't have the package and then called the police because he thought his credit card was stolen. It turned out his credit card was never involved. Someone was just using his address and picking stuff off his doorstep [when he wasn't home].

A few days later, we got another order to a different address, but with the same credit card. So I notified the police officer who was in charge. He said, "Go ahead and ship it, not an empty box, but ship one that's about the same poundage."

Q: What did you put in the box?

A: I think it was just bits and pieces of corrugated cardboard, just enough to make it feel like it wasn't a box of [packing] peanuts.

We shipped it, and the police were waiting when the delivery company dropped it off at the doorstep. The police waited and arrested this guy when he came to get the package. It turned out he was involved in an online fraud ring.

Q: What did that experience teach you? Did it change how you do things?

A: In that case, we were actually right. We followed our policies. We verified the credit card to that shipping address, and it did match. So, it was kind of interesting to learn that even though we did everything right, we still could have gotten ripped off if it weren't for the honest person who received the first package.

Q: How then do you protect yourself from fraud?

A: We say that the billing and shipping addresses have to match, and for PayPal, it has to ship to a confirmed address. That way, we're covered. We do make exceptions if a person has a lot of feedback and it's not a pricey item. If it's $150, you have good feedback, and you want to ship it to your work, we'll probably go ahead and do that.

We just sold a $5,000 lens the other day and the bidder wanted it shipped to his work address, which is understandable. That way, it's not sitting on his doorstep. But he had zero feedback and I was like, "Can't do it. Not with zero feedback. We have to ship to the street address that's verified with the credit card."

Q: Did he end up ordering from you anyway?

A: Yeah.

Q: How often have you been a victim of buyer fraud during your tenure of selling on eBay?

A: We've been doing this for almost three years, and we've lost three cameras. I said to our president once, "Those are pretty [good numbers]. I'll take that compared to any of the other PowerSellers we talk to." Of course, he'd rather have zero.

Q: Why do you think your numbers are so good regarding fraud?

A: I think because we enforce our rule that billing and shipping addresses match. And we turn down some payments because they don't match. Not that we want to turn down any sales. But, at the same time, if you are in doubt it may not be a sale anyway.

And we look more at our transactions than some other companies do. They may just process and ship, regardless. If my staff is going through orders and sees something questionable or unconfirmed, they bring it to me and I make the decision whether to ship or deny. I think we've guessed pretty well so far.

Q: Are there certain countries you won't deal with?

A: We typically don't ship out of the U.S. Out of the three cameras we lost, one was shipped overseas. Two months after we started doing this, I sold a $2,000 camera to Indonesia, and got burned on the credit card.

That's when we basically said we won't ship out of the U.S. because you can't track it. You can't verify it like you can in the U.S. We probably get a dozen questions a day: Will you ship to Canada? Will you ship to Germany?

Q: Any exceptions to your no international shipments rule?

A: PayPal does now confirm addressees and backs payments to Canada, so that would be okay. But you still have to deal with people who

want to get around customs and who want to claim a $1,000 camera cost 50 bucks. I understand why they want to do it, but we're not going to do that because that's fraud. You buy a $1,000 camera and we declare it as a $1,000 camera. We're just not going to get in trouble because someone else is trying to save some money.

Q: How many suspicious or fraudulent orders do you have to deal with?

A: We probably get half a dozen types of fraud a day.

5

profile

Dealtree

Getting laid off might have been the best thing that ever happened to Paul Fletcher and Garry Heath. Like so many other hopeful businesspeople, the two jumped on the dot-com bandwagon in the late 1990s, taking jobs with Internet retailer Buy.com. Heath left an office products company to manage Buy.com's supply chain. Fletcher joined the e-tailer from computer hardware distributor Merisel, becoming general manager of the company's Canada division and later, as the company's fortunes were spiraling downward, head of its software store.

In a story that's now legendary, but by no means unique in the dot-com era, Buy.com's business started strong but quickly fizzled. After its well-hyped February 2000 initial public offering, Buy.com's stock soared to $37.50 a share. But within 18 months, the company was delisted from the Nasdaq stock exchange because its per-share price had dipped below $1. The steep decline in its stock price was only one of many problems for Buy.com, which spent more money than it made. During the first half of 2001, before its founder took the company private again, Buy.com lost nearly $51 million. Hundreds of employees were terminated, including Fletcher and Heath, who were laid off in February 2001.

As tough times often do, the layoff helped Fletcher and Heath cement a friendship that had started at work and strengthened at church, where they were in the same Bible study group.

Two months after getting their pink slips, the two men started Dealtree, combining an important lesson they learned about retailing while at Buy.com with their individual passions for eBay.

They noticed that Buy.com, like many retailers, didn't have a good way of handling customer returns, particularly those electronic items that retailers couldn't send back to the manufacturer for a refund. According to Heath, companies like Microsoft and Sun Microsystems used to destroy their returns and put them in a Dumpster since they didn't have an ability to deal with them.

Heath and Fletcher thought they'd be able to sell these unwanted items on eBay, earning a commission for themselves and getting the retailer more than it could make if it sold the returned items to a liquidator. The pair pitched their idea to a former colleague at Buy.com. And he agreed to let their new company, Dealtree, sell some of Buy.com's customer returns on eBay.

powerpointer

Offer a way for companies to auction off items they might otherwise have to throw out.

The company started with seven pallets of Sony laptops and PDAs that Buy.com consigned to Heath and Fletcher to sell. "We handled all their returns," Fletcher says. "Anything that was returned to Buy.com that they couldn't return to their vendor for full credit would [be sold on eBay] through us."

What happened next amazed even Fletcher and Heath, who knew they had a solid business plan. They just didn't know how good it was.

Remember that old IBM commercial, where a group of entrepreneurs launch an e-commerce web site? In the commercial, as soon as the web site goes live, orders start rolling in, and the entrepreneurs stare openmouthed at their computer screen, not quite sure how to handle all the business.

To hear Heath and Fletcher tell it, that's exactly what happened when they posted their first auctions on eBay.

Back then, Dealtree was just two guys working out of a garage, like Apple Computer's Steve Jobs and Steve Wozniak. They single-handedly made sure the equipment Buy.com had consigned to them still worked like new and then put it up for auction. The bids were coming in at a faster rate than the new business partners could handle. Every day, there were new items to post online, more e-mail messages from bidders to answer, more closed auctions, and more products to package and ship to customers.

"We didn't have a lot of processes or systems in place in order to handle our volume," Fletcher recalls. "I remember sitting one Friday night at about 9 P.M. I think it was the first Friday that we were in business. All these orders started coming in and I'm thinking, 'Now what do we do?' "

Well, what you do first is get those orders fulfilled—even if means working around the clock from a three-car garage that has been turned into a makeshift warehouse. Later, you figure out a way to work smarter and better.

Obviously Dealtree has done so. The company has been profitable since its

first month in business, something that was extremely important to the founders. After all, they were veterans of a crash-and-burn, boom-and-bust Internet company. "We are extremely focused on profit," Fletcher says. "We doubled our revenue each year, and the only month we lost money was September 2001 because we couldn't sell anything the second half of the month" because terrorist attacks grounded airplanes nationwide.

By the second month in business, Dealtree had outgrown Fletcher's garage and moved into a 2,500-square-foot warehouse. That's a good thing, too, because Fletcher's neighbors probably couldn't have tolerated sharing their street with the start-up much longer. Back before the founders learned important lessons about order fulfillment—like drop ship as much inventory as you can and create a dedicated picking, packing, and shipping department for those items you can't—they shipped orders from Fletcher's garage.

"We had a couple of funny stories," Fletcher says. There was that day when a big wind blew through, sending foam packing peanuts dancing out the door and into everyone's yards.

The business partners laugh at such memories now, though they admit Dealtree has benefited by their learning from these mistakes and overcoming early challenges.

"We went from zero to $200,000 a month in terms of revenue," Fletcher reveals. "We knew we had to get out of the garage and hire some people."

The company is now one of eBay's top 300 sellers, with revenues high enough to earn it a Titanium PowerSeller ranking. Fletcher won't say precisely how much the company sells, just that it's somewhere between $4 million and $10 million annually.

"Every year, we're growing at a rate of about 50 percent," he says.

Dealtree, through its main seller ID, "dealtree-auctions," had more than 55,000 positive feedback postings from previous customers. The company, which is headquartered in Lake Forest, California, also sells through 15 other user IDs, including "dealtree_deals," "Visioneer-Auctions," "Dealtree-Closeouts," "SMC-auctions," and "Phone-Blowout-Store." Recent listings by Dealtree included computer cables, video games, DirecTV systems, DVD players, MP3 players, cordless telephones, and watches.

powerpointer

When you get big enough, consider doing business under several different user IDs that are more descriptive of a specific product segment.

With a workforce of 22, Dealtree launches about 400 to 600 new eBay auctions every day and ships between 500 and 900 items daily after the gavel has fallen on them.

Dealtree is what's known as a reverse logistics company. It partners with retailers, like Buy.com and Good Guys electronics stores, to sell computers, telephones, and other high-tech equipment that customers have returned. The company also sells what are referred to as "end-of-life" products for manufacturers and distributors. These may be new, but out-of-date products that would have little value through typical sales channels.

powerpointer

Partner with other businesses to sell items that would otherwise be of little value to them.

On eBay, Dealtree has discovered, there's a much more profitable market for these goods.

According to Heath, a company with out-of-date computers often sells them to a liquidator for 10 or 15 cents on the dollar. By contrast, Dealtree can take those units and sell them on eBay for 35 to 70 cents on the dollar. Most of his customers don't want to dedicate the necessary resources to auction off the items online. Instead of building this ability in-house, companies can outsource the task to Dealtree.

The company's first priority, after moving out of Fletcher's garage, was to hire a computer programmer. Rather than purchase a third-party auction management system, Dealtree built its own.

"We determined that we needed to build our own propriety system in order to do more with less," Fletcher says. "Basically, it's the backbone of this company. If we didn't have our software, we'd probably have to add 15 or 20 people, I'd imagine."

Dealtree's proprietary software automates nearly every function that otherwise would be done by a person at a computer keyboard—inventory control, order processing, payment collection, and customer service. Even many of its auction-making functions are automated, though Fletcher won't talk openly about how this works for fear of giving away some of his company's competitive advantage.

EBay shares its application program interface (API) with companies like Dealtree that want to design their own custom auction management programs and inventory systems. EBay explains API sharing this way: "Normally, users buy and sell items using the eBay online interface, interacting with eBay directly. But with the eBay API, you communicate directly with the eBay database."

Companies interested in developing customized software must join the eBay Developers Program. Members get access to the Developer Zone, a password-protected web site that provides a wealth of technical documentation and specifications. EBay Developers Program members pay an annual membership fee of $500 to $5,000, a certification fee of $100 to $200, and monthly API usage fees. To learn more about the eBay Developers Program, go online to http://developer.ebay.com.

powerpointer

Should you decide to build your own customized auction management software, consider joining the eBay Developers Program to get access to a wealth of technical documentation and specifications that will help your computer system interface with eBay's.

Dealtree gets its merchandise from about 70 core customers, most of them large companies that can provide thousands of units to sell every month. "We're not as interested in the onesies and twosies from an individual, like a consumer walking in with their product," Fletcher says.

From the start, Fletcher has recruited clients the way any salesperson does. He visits the offices of potential suppliers and tells them how Dealtree turns outdated and returned merchandise into money.

"We'll walk them through our software solution just to show them the amount of effort and expertise that goes into what we do," Fletcher said. "Our whole premise is that high-volume auction management is an outsourced solution. We believe that manufacturers manufacture, distributors distribute, and retailers retail. What we do—our core competency—is high-volume auction management and that requires a whole different skill set than what [our clients] are accustomed to."

These days, with a reputation as one of eBay's biggest sellers, Dealtree also gets customers directly from eBay. In July 2004, the auction site developed a PC Selling Center to make it easier for individuals to sell their old computers. The Web portal gives users the chance to sell the computer themselves, or they can have someone else—such as Dealtree, AuctionDrop, or a trading assistant—sell it for them. Those who choose the "Fast Cash Trade-In" option at the PC Selling Center send a description of the computer to Dealtree. The company responds with a quote and a UPS shipping label so the owner can mail the PC directly to Dealtree.

powerpointer

Show potential suppliers how your skills at using eBay will benefit them.

EBay later took note of Dealtree's successful computer trade-in with Auburn, Washington, retailer Zones. In October 2004, the auction site partnered with Dealtree to make the trade-in program more widely available to original equipment manufacturers. Under the partnership, Dealtree will reportedly manage trade-in auctions for manufacturers that hope to generate more sales by offering customers trade-in credits.

When returned products come into Dealtree's warehouse, technicians take them out of the boxes, test them, and sometimes complete minor repairs. If there's a major physical defect, such as a deep scratch on a laptop, the technician will take a picture of that. Otherwise, Dealtree uses stock photography and stock descriptions that it gets from manufacturers for its eBay listings. Customers know that they're bidding on returned or refurbished merchandise and that, as a result, the price will be lower. But for Dealtree, quality assurance is paramount.

powerpointer

If you have permission from the manufacturer to do so, it's okay to use stock photographs for item listings. But if a product has a unique defect, disclose that to keep customer expectations in check.

"Our biggest backlog is the ability to process the inventory," Fletcher said, noting that about 85 percent of the company's employees work as either technicians or warehouse laborers.

"We have more inventory than we can handle today," he adds. "But it's a matter of making sure we merchandise and represent that product in the fashion that it truly is in. We need to make sure [to provide] an accurate description and picture."

To maximize its own profits, Dealtree calculates how it much it costs to process each item for resale and works only with suppliers that can provide a large volume of goods in eBay's best-selling and top-grossing categories, like electronics and computer software.

"We try to cost-justify everything we sell," Fletcher says. "If a client is not performing, we're obviously not going to put our resources there."

Thanks to its proprietary software system, Dealtree has automated most auction management tasks. But processing items for sale still takes time, and Dealtree does everything possible to minimize that.

"We do measure everything religiously here," Fletcher says. "We can tell you how many minutes [technicians] spent on each item. We can tell you when our technicians go to the bathroom just by looking at their testing stats because everything is measured to the second.

"Once they open up a new item and start testing it, the clock starts ticking on them. They're compensated based on the number of units they test. They're also compensated based on their quality because we also measure returns."

powerpointer

Monitor how long it takes to process each item and constantly look for ways to cut this time down.

Dealtree ends up selling about 85 percent to 90 percent of the items it puts up for auction on eBay, nearly double the average sales conversion rate for most of the web site's sellers. Part of that has to do with the company's pricing. Bidding typically starts low, and items sell for what the market will bear, with no reserve. But Dealtree also uses simple rules of supply and demand to maximize its sales.

"EBay is a very good market for breadth of product, not necessarily depth of product," says Fletcher, explaining that bidders can find lots of *different* things for sale on eBay but not lots of the *same* thing.

"It's miles wide, but inches deep," he observes.

Many times, Dealtree will receive duplicate items from its suppliers. The company doesn't put all these items up for sale at the same time, and it rarely sells wholesale lots because the profit margin isn't as great.

"If you have 2,000 of one item [for auction] all at one time, you're going to saturate the market," Fletcher says.

When Dealtree receives duplicate items, it will leak that product onto the market in small quantities until every single one sells.

"What we're trying to do is let the consumer out there think this is the only one on the market," Fletcher reveals. "We have different automated features that launch [auctions] at specific times. If we have 2,000 [duplicate items] we won't

put them out there at the same time. We'll stagger them over a month or two months in order to get the maximum yield for our client."

powerpointer

If you have multiple quantities of the same item for sale, leak them onto the market slowly to create the perception of scarcity. Don't flood the market all at once.

Profit is the top priority at Dealtree. That's not surprising, considering that its founders came from a company that put things like brand cachet and running crude and clever Super Bowl commercials above making money.

The company's warehouse in Lake Forest, California, is just 11,000 square feet because that's all the space Dealtree needs and can afford. A competitor built a 300,000-square-foot processing center to handle its future business, and then that company spent its way out of business. Financially prudent Dealtree is still thriving.

"We try to never let our expenses outgrow our revenue," Fletcher insists. "We're not sitting around here on Herman Miller chairs."

powerpointer

Don't overspend on office furniture, space, and fixtures. Buy only what you need, and avoid paying out more than you bring in. Remember, your online customers will never see your physical location.

Lest you think his office is too austere, too much like the garage where the company was founded with $79 worth of shareware and some folding chairs, Fletcher quickly adds, "I do have a leather chair now, but I've got a two-year-old desk and it's got dents and scratches on it. We have nice offices, but we're also very wary of expenses. We're always trying to make sure we have our focus on profit."

TITANIUM TALK

Dealtree got its start selling computers and PDAs that had been returned to Buy.com, the same company that months earlier laid off founders Paul Fletcher and Garry Heath. Now, the company has many suppliers for its eBay auctions. Dealtree also earns money by sharing its auction management expertise with other businesses. Fletcher, Dealtree's president, talks about how these other business lines developed.

Q: Since 2001, your company has become much more than simply an eBay seller. You're certainly making money from these auctions, but you also have other revenue sources. Tell me about them.

A: We have three major areas that we're focusing on today. One is eBay auction management. For example, a client will get a return. We'll screen, sort, and test [the item] and maybe do some minor repairs. Then we'll sell that on eBay.

We also do branded storefronts on eBay for Black & Decker, Visioneer, and Western Digital. You think you're dealing with a manufacturer directly, but it's really powered by our systems.

We've also developed our own proprietary auction platform. For companies like Yamaha, we've developed our own auction technology that's integrated in their web site that their dealers have access to. They can log on and bid on Yamaha's old, refurbished, end-of-life inventory through an auction format. It's like having our own eBay, but it's not on eBay. It's a [business-to-business] platform that we've developed. We have a couple of clients that are leveraging that today.

Our third area of focus is our new trade-in program. That basically allows people to trade in their older technology and trade up to a newer good. We've partnered with Zones, so [the retailer's customers] are able to trade in their old G3 or G4 Apple and trade up to a G5. We'll give them a preestablished credit that they can use toward the purchase of a brand-new computer from Zones. Obviously, they have to send the old computer to our facility here.

Q: And then you can turn around and sell the computers they trade in?

A: We sell them on eBay. From a manufacturer's or a retailer's perspective, we're trying to give them more value-added solutions, so they can increase their sales. But on the flip side of that, from a Dealtree perspective, we want to increase our source of supply. The trade-in program allows us to do that.

Q: How successful has it been?

A: The first month we implemented this with Zones, they realized a $4 million incremental sale because of the program. It allowed them to be a little bit more price competitive against one of their competitors, and it allowed them to trade in 1,200 Power Macs. They were extremely happy because they got increased sales, and we were extremely happy because we made a good margin off of trade-ins.

Q: It sounds like you have many channels for getting your inventory, both through trade-ins and by dealing directly with retailers and manufacturers.

A: Our target client, meaning our source of supply, is primarily large enterprise clients—the Circuit City and Good Guys of the world—and all the manufacturers. Those are our clients.

Q: Do you require clients to sell a certain amount of items through you every month?

A: There's no set bar, but we're looking for clients that can provide products in volume.

6

profile

Designer Athletic

Mike Shelton helped put an extra $500,000 on his former employer's books—money made exclusively on eBay—before going into business for himself.

Shelton is a plainspoken Southerner with an entrepreneur's eye for business and a knack for turning a good idea into big money. In 2000, the golf course pro shop where he worked bought huge lots of overstocked, used, and refurbished golf gear to resell. Shelton was the guy responsible for auctioning off that merchandise on eBay. As he watched the prices mount on auction after auction, Shelton's own wheels started spinning.

Through his business contacts and friendships, Shelton knew of many retailers who were languishing in "dead stock," and he figured he could sell that on eBay just as well as golf clubs. In October 2003, Shelton founded Designer Athletic and registered the user ID "designerathletic" to sell through the online auction site.

The company gets its inventory—retail closeouts—directly from stores and wholesale brokers, but never from manufacturers. "The manufacturers really won't sell to you unless you have an actual store," he says. "You just sort of have to hunt around and find deals where you can and get stuff that way."

Occasionally, Shelton will buy current merchandise—the newest model of Air Jordan basketball shoes, for example—and auction it off on eBay. That helps lure customers to the company's web site and its other auctions, Shelton says. But so-called inline merchandise costs more and the profit margins are slimmer. So, most of what Shelton sells through Designer Athletic is out of season. It's the hot style from last year or two years ago, not from this year.

powerpointer

Consider selling merchandise that's past its prime (from last season or even before) in order to get the best deals.

Shelton won't reveal precisely who his suppliers are for proprietary and contractual reasons, but he's been able to exploit various connections he has in the retail industry to continually stock his virtual store. "Connections [are] sort of the key to it," he reveals. "That's part of the reason we got started because we knew so many people we could get inventory from. Then those people turned us on to other people, who turned us on to other people."

As just as one supplier begat another, the site's sales quickly mounted, turning Designer Athletic into one of the biggest merchants on eBay.

"We knew it could work and knew it could be pretty big," says Shelton, who is president of Designer Athletic. "We didn't know how big really. I think we've already sort of surpassed what we thought it could be, to be honest with you."

Within three months, Designer Athletic had achieved a Titanium PowerSeller ranking, mainly by selling liquidated inventory from retailers of name-brand athletic shoes. Shelton's company reached this sales level faster than any other eBay user ever had. By the six-month mark, the company was selling 4,000 pairs of shoes a month and pulling in about $400,000 in monthly revenues. In 2004, the company's annual revenues reached a projected $3.5 million.

As impressive as those numbers are, Shelton believes that Designer Athletic is still at the beginning of its growth trajectory. With appropriate staffing and improved processes and systems, the company could someday sell 10,000 to 12,000 pairs of shoes a week, double its current volume, he says. Shelton also has visions of becoming more deeply entrenched in the apparel business, with jeans, athletic jerseys, sweat suits, and jackets eventually accounting for 50 percent of sales, instead of their current 10 percent.

"We haven't really scratched the surface with apparel," says Shelton, whose most likely customers are young men who wear urban styles and sports-inspired fashions. "We've had opportunities to buy [clothing], but we've just been so busy with shoes and trying to get systems in place [to improve the business]. Apparel does take longer to do. That's one thing we've found out. It's harder to [capture in photographs]. The items are even more unique, so it takes a little longer to list them. We've been trying to figure out ways to store it. It takes up right much warehouse space. Those are all things we're sort of working on right now."

Though he's been highly successful selling on eBay, both on his own and for the golf course pro shop, Shelton is still learning the best ways to market and

merchandise products. Every day seems to bring another lesson in how to do business better. Items that have been sold, but not yet paid for, are a case in point.

One day, Shelton received a call from a customer who was searching for a particular style of athletic shoes. Shelton punched all the details into his inventory system and discovered that he had one pair in the man's size in stock. But those shoes had apparently been sold in an eBay auction about 45 days earlier. During Designer Athletic's checkout process, the winning bidder indicated that he would pay by money order. But he never did.

The shoes languished on the shelf—eating up valuable warehouse space and essentially costing Designer Athletic money—until Shelton discovered the problem. "Obviously, I canceled it and sold it to the other guy," Shelton says. "But if you don't go in and keep a check on that pretty regularly, that stuff just sits in your warehouse. You don't get any money for it."

powerpointer

Pay attention to merchandise that has been sold, but not yet paid for. If a bidder fails to pay for an auction, request a refund of your fees from eBay and put the item back up for sale. Otherwise, it will eat up valuable warehouse space.

Unpaid items are, in a sense, the bounced checks of eBay. They can be a costly and time-consuming problem for sellers. But preventing the problem is virtually impossible.

When users bid, they're essentially making a promise to complete the transaction if they win the auction. But many bidders don't follow through on that promise and neglect to pay for the auctions that they've won. Sellers are left to clean up the mess. If an item remains unpaid, sellers like Shelton must request a refund from eBay of the auction's final value fees—an amount eBay debits from a seller's account after every auction closes with a winner. Sellers must also request a credit for their auction listing fees, so they can relist the item again without incurring additional expenses.

In Designer Athletic's case, its ChannelAdvisor auction management software automatically files these requests if a winning bidder fails to check out in 10 days. But if a bidder completes the checkout process and promises to send payment by mail, that's counted as a good transaction. Then if the bidder never sends the payment, items may sit on the shelf indefinitely. Meanwhile, Designer Athletic has paid fees to eBay for items it hasn't technically sold or collected money for.

The financial burden of unpaid auctions can be significant. In the spring of 2004, after having let the problem go for several months, Designer Athletic discovered it had more than 400 unpaid items on auctions that were more than 30 days old. Given that the company's average selling price is $52 to $54, that meant eBay owed the company more than $800 in final value fees, plus at least that much in auction listing fees. "And it ties up our inventory," Shelton adds.

Now, Shelton checks past-due orders every month, cancels any that are more than 30 days in arrears, and requests the appropriate refunds and credits from eBay. "Then, everybody starts e-mailing you wanting to buy the stuff because they've got a strike against them," he says. "And it's like, 'You had two months to buy it. We don't want to hear from you now.' "

powerpointer

Go back to eBay and request a refund of your final value fee and a relisting credit if a sale ultimately does not go through.

With its multimillion-dollar sales, Designer Athletic is one of eBay's big boys. In truth, though, the relatively new company has much in common with smaller, fledgling sellers. Designer Athletic's leaders have already made some smart moves that helped elevate their company to the next level of online success. But they're still learning about the business of selling on eBay. The moves they make next will determine whether Designer Athletic continues its successful climb on the world's leading online auction site.

So far, a series of smart decisions has fueled Designer Athletic's climb and allowed the company to continually increase its eBay business. For example, Designer Athletic listened to pleas from international bidders on one occasion and acted quickly to solve a warehouse space crunch on another. The company's handling of both situations has resulted in higher revenues.

During its first four months in business, Designer Athletic didn't accept any international orders. Like most eBayers, the company wasn't initially equipped to handle shipping to foreign countries. But potential bidders were continuously inundating the company with e-mail messages: "Will you ship overseas?" "I live in Canada. Can I bid on your auctions?"

Finally, Designer Athletic began allowing foreign customers to bid on its auctions, and that decision has been a real boon for the business. Now, the company processes 30 to 40 international orders a week, shipping shoes to such countries as Australia, the United Kingdom, Canada, and Germany. Some of the international orders can be quite lucrative.

"We have a lot of people overseas with stores that buy stuff from us for their own stores," Shelton says. "We have a couple guys in Australia and some guys in Germany and the U.K. that basically buy stuff from us to stock their stores with. It's not uncommon for them to buy 10 or 20 pairs at a time. We've had some buy 40 or 50 pairs."

powerpointer

Look for opportunities to sell your merchandise internationally.

Selling internationally has its own special set of challenges. Fraud can be a big problem, particularly with bidders in Africa and developing nations. To protect itself from being scammed, Designer Athletic accepts foreign bids only from people in Europe, Australia, Asia, and Canada.

Those bidders pay extra for shipping, $35 per item, compared to $10 per item for shipping within the United States. Designer Athletic doesn't accept any foreign credit cards, so international bidders must pay using PayPal or by sending in a Western Union money order.

powerpointer

When dealing with buyers overseas, watch out for fraud, especially in Africa and developing nations.

The company must pay more to ship shoes internationally via its preferred carrier, FedEx, hence the additional shipping charges. Yet preparing an item that is bound for Canada, Europe, Australia, or Asia generally doesn't take much additional time, Shelton says. There is a bit more paperwork required because import-and-export documents, listing the shipment's contents and its value, must be created for review by customs agents in each country.

Additionally, some countries may limit shipments of some brand-name merchandise as a way to crack down on the black market. For example, if customs agents in certain countries see that a package contains multiple pairs of Nike shoes, they may flag it and not allow it inside their borders until the recipient shows proof that the shoes are for personal use and not for resale.

Designer Athletic has encountered those problems before. Now, Shelton says, the company is less specific, but still truthful, about what is in its shipments. Paperwork may declare that a box contains multiple pairs of "athletic

shoes" without specifying the brand. Customs agents may still examine the contents, but this labeling practice usually prevents delays at the border, he explains.

powerpointer

When shipping merchandise to other countries, be sure to charge extra for shipping to cover your costs and don't accept foreign credit cards. Instead, have customers pay through PayPal or by sending you a money order or wire transfer through Western Union.

The ability to process international orders has significantly boosted Designer Athletic's revenues. A new, bigger warehouse provided another bump in business. Though sales grew rapidly in the beginning, Designer Athletic's growth was eventually constrained by the size of its warehouse—which was a scant 3,000 square feet.

"It was just crammed full," Shelton remembers. "We were stacking stuff in the back of offices and anywhere we could get it out of the box."

Things eventually got so tight that at one point Shelton had 17 extra pallets of gear and no room to store or process them in his own warehouse. Shelton convinced his landlord to let him use another warehouse temporarily for storage of the surplus merchandise. "We threw the stuff in there, and we were actually having to leave the place we were in and go down [the street] 100 yards and pull orders out of that," he says. "That was the only way we could figure to get the stuff open to where we could list it. We did that for two or three months."

The company finally moved into a bigger warehouse. This one, in the heart of Durham, North Carolina, is 10,000 square feet. The company's entire inventory, about 25,000 pairs of shoes, is finally under the same roof. Though overhead costs are higher in the larger space, relocating ultimately has been good for the company's bottom line.

Moving to the bigger warehouse made shipping easier, and it has enabled the company to buy more inventory and therefore to post more items for sale on eBay. After moving, the company's listings more than tripled, from 850 at any given time to 3,000.

powerpointer

If stocking inventory, make sure you have a warehouse with ample space to both hold and prepare goods for shipment.

Before the move, Designer Athletic operated with a skeleton crew. "We were working out of 3,000 square feet, and we could handle that, for the most part, with just three of us," Shelton says. "Where we are now, with the amount of inventory we have, there's just no way we could do all that. We were answering e-mails, creating listings, taking pictures, checking in inventory, shipping stuff out. It didn't take long to realize where we needed help."

A warehouse manager was hired, as well as some part-time shipping department help. The company needs even more employees for that part of the business, Shelton says, particularly as sales grow.

For now, the warehouse is big enough to accommodate Designer Athletic's current slate of about 6,000 auctions per week and its imminent growth. But Shelton is already contemplating the company's next move to even bigger quarters because he doesn't want a lack of space ever to stall growth again.

"By this time next year, we'll probably need something else," he says.

With 600 to 700 orders to fulfill every day—and more on Mondays—the company's warehouse crew remains pretty busy from 8 A.M. until 4 P.M., when the FedEx truck arrives to pick up that day's shipments. That leaves the warehouse manager to deal with incoming inventory.

When a new pallet of shoes arrives, the warehouse manager unpacks it and makes a detailed list of what the shipment contained. He gives each box of shoes a cursory inspection. If any boxes are damaged, he opens them to make sure the shoes are in good condition.

"We don't open every box," Shelton says. "It would be nice, I guess, but we just can't do it."

The warehouse manager counts each stock-keeping unit (SKU) and records how many of each size Designer Athletic has in stock. Then he shelves the shoes, grouping them by categories: basketball, running, tennis, walking, aerobics, and so on. As he's shelving the shoes, the warehouse manager puts one pair in every style on a rolling cart. Once he's finished stocking, he wheels the cart, stacked high with shoes, to photography. There, one of Shelton's business partners snaps a photograph of each pair.

The shoes are photographed in a studio, using the same $500, 5-megapixel Sony camera Designer Athletic has used from the beginning. But the company's photography techniques have improved considerably.

Today, all shoes are photographed on a clear Plexiglas backdrop in a well-lit studio. All shoes are pictured the same way: One shoe is in profile, and the other's sole is showing. All photographs are cropped tight, so that only the shoes are visible. The professional-looking photographs complement Designer Athletic's slick and clean-looking auction template, which was created using ChannelAdvisor's software.

powerpointer

Understand the importance of taking and marking inventory before sending it off to be photographed and listed on your site.

"You don't want to put a crappy picture on there," says Shelton, whose company operates under the eBay user ID "designerathletic" and spent $1,500 buying lights and the clear backdrop for its photo studio. "We used to sit [shoes] on a little table with a sheet draped over it and take pictures that way. I look back at some of them. I used to think it looked all right, but now it makes your skin crawl," he admits.

Once shoes have been photographed, Shelton takes the shoeboxes and the warehouse manager's list and begins entering SKU numbers, sizes, inventory counts, and descriptions into a computer spreadsheet that integrates with the ChannelAdvisor auction management software. Each field in the spreadsheet represents information that is necessary for an eBay auction. Once Shelton has filled in all the blanks, the new auctions are ready to be posted.

Designer Athletic auctions go live every evening between 7 P.M. and 9 P.M. Eastern time. That schedule was chosen to maximize bidding. Auctions are timed to end when most people, whether they live on the East Coast or the West Coast, will be home from work and free to bid, Shelton says.

powerpointer

Post auctions to go live between 7 P.M. and 9 P.M. Eastern time, so they'll begin and end when people on both coasts are home and more likely to bid.

Most Designer Athletic auctions last for five days, not the seven days that are more typical of eBay auctions. After some experimentation with three-day, five-day, seven-day, and ten-day auctions, Shelton finally settled on the five-day standard. His reasoning: People only really start bidding in the final days of an auction, and five days provides just enough exposure to attract a large pool of bidders.

"Even with five-day auctions, the first couple of days are very slow, traffic-wise, for an item," Shelton says. "It's really the last two days that most of the bidding occurs."

Unlike many of his competitors in the shoe and apparel business, Shelton doesn't start his auctions at way below retail. Instead, he may open the bidding as high as $99.99 on a pair of men's Nike Air Max running shoes.

powerpointer

If you determine that you'll get enough exposure, schedule your auctions to run for no more than five days. You'll find that most bids will come on the last two days, and especially in the last hours, before the sale ends.

"If you've got good stuff, I don't think you have to start [auctions] at the rock bottom," says Shelton, whose bid prices are calculated to earn the company a profit on every pair of shoes sold.

If a starting bid proves too high and the inventory doesn't move after being posted several times, Shelton may mark it down to get people bidding. At least once a quarter, Designer Athletic inventories its merchandise. Things that have been sitting on the shelves for too long are marked down and priced to sell. Markdown auctions might begin at $6.29, $5, $2.99, or even a $1. In those instances, the goal is to get rid of the shoes, even at a loss, to make room for new things that are likely to sell quicker and for better prices. Sometimes, Shelton has even sold the hard-to-move inventory at a discount to other businesses that sell shoes over the Internet. At that point, he'll do anything to get rid of his own "dead stock."

Closeout auctions are sometimes necessary, Shelton says. But he doesn't think it makes much business sense to start every auction at ridiculously low prices, at least not in his primary merchandise category—athletic shoes.

"We've actually tried [auctioning] a few items like that . . . and we ended up selling them for $1, $2. It's just not the way we want to do business," he says. "I'd rather sell a whole lot less and make money than I would just turn and turn and turn [inventory] and not make anything."

TITANIUM TALK

What happens when a renegade customer attacks your business, wasting your time and driving away your real customers? That happened to Designer Athletic in its first year of business. Company president Mike Shelton talks about the ordeal, which cost his company a week's worth of sales. That's a pretty good chunk of money for a Titanium PowerSeller like Designer Athletic, which may sell $350,000 worth of merchandise in a week.

Q: You have an interesting story about how a disgruntled buyer wreaked havoc on your business, at least for a little while. Could you talk about that?

A: We had a guy one time that was mad at us. He was bidding on all of our items for about a week. He'd go [on eBay] in the evening and bid on everything that had bids on it. He'd bid it way up to where he won it and then wouldn't pay. He bid on 1,500, 2,000 items. One week, he pretty much wiped out all of our sales.

Q: Really?

A: Yeah, and then [when we caught on to his scam and blocked his bids], he'd go in and set up accounts with different user names and different addresses [and bid with them]. We would call eBay and they would cancel his account and cancel his auctions. But it didn't help us very much that one week.

Q: I'm sure that hurt your company financially, and you must have spent a lot of time dealing with the problem.

A: We had to go through the rigmarole with eBay trying to get our fees back, so we wouldn't have to pay for all those [final value] fees on all those auctions.

Q: In an instance like that, where it's clear the bidder has no intention of paying, did eBay work with you and waive the normal waiting period to recover final value fees on unpaid items?

A: They actually did. Once they saw what was going on, they were pretty good about refunding our money. At first, they weren't that way. But once they saw just the amount of stuff he was bidding on, it wasn't very hard to figure out [he was up to no good]. We sent eBay some pretty good proof of what was going on, and they took care of it.

Q: Do you have a way of blocking this person from bidding?

A: We did. But, like I said, he was just setting up new accounts. He was using multiple user names. Every time we'd block one, he'd come up with another.

Q: So, that was a case of someone who was really quite persistent and determined to hurt your business?

A: Yes. He sent us some e-mails you wouldn't believe.

Q: How did this vendetta originate?

A: Basically, he wanted to return a shoe to us because he claimed it was defective. And we told him, "Send it back, we'll look at it, and if we agree we'll refund your money." But he wanted us to pay to have it shipped back, and we told him we wouldn't do it. We told him to send it back to us and if we agreed it was defective we'd refund everything.

Q: In other words, had you determined the shoe was defective, you would have reimbursed him for the shipping costs?

A: Yes, and we've done that many times. But he wouldn't send it back without us paying for the return shipping. That's what he got pissed off about.

Q: I guess you never know when a problem like that may occur. With a retail store, someone couldn't interrupt your business like that. If they stood in front of your store and harassed your customers—essentially what this bidder was doing—you could call the police to make them leave.

A: Exactly.

Q: But how do you make someone leave on eBay?

A: It's very hard. You really have to be able to prove it. It's so easy to sign up for eBay. If you use false information to sign up, there's nothing you can do. After a point, eBay agreed they would give us our fees back, but as far as actually stopping him, they basically said there was nothing they could do. They were trying to find out who it was.

Q: What finally happened?

A: All of a sudden he sent us an e-mail saying, "If you leave me alone, I'll leave you alone." And it just stopped.

Q: Good thing—he felt like he'd gotten the revenge he needed and stopped bidding on your auctions?

A: After a while I guess he got his fix or whatever, and he finally quit. But, for a while, we were on there every night trying to catch and cancel his bids. He was putting bids on stuff faster than we could cancel them. It was crazy. For about a week and a half, every night we didn't know what was going to happen.

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profile

eMoviePoster .com

Every one of Bruce Hershenson's jobs has been a gamble—either literally or figuratively.

From 1974 to 1984, Hershenson played poker professionally in Las Vegas. He abandoned that lifestyle for another high-stakes career as an options trader on the Philadelphia Stock Exchange. In 1989, ready to make his next gamble, Hershenson left his career in the financial industry with hopes of turning a hobby into a business.

When Hershenson departed the stock exchange, he was a big-time collector of vintage movie posters, having accumulated some $50,000 worth of cinematic history. Hershenson's plan was to become a part-time poster dealer while searching for his next full-time career.

But the poster business itself turned out to be his calling. Over the next several years, he devoted more time to the venture and gained a reputation as a top-level seller of movie memorabilia.

In 1990, Hershenson approached Sotheby's auction house with an offer to conduct a major auction of movie posters. Sotheby's passed, but its competitor Christie's agreed to sell off some of the posters that Hershenson had assembled. The auction that December was a raging success, garnering bids worth $940,000 on 271 lots. (Christie's had estimated the auction would bring in between $500,000 and $700,000.)

That success kick-started Hershenson's career. For the next eight years, he conducted an annual major movie poster auction at Christie's. Hershenson supplemented his auction revenues by selling movie posters through catalogs that he printed and mailed to about 3,000 collectors. Each year, he'd sell between $1.5 million and $2 million in movie posters.

By 1998, Hershenson's customers and friends were mentioning eBay to him

more and more often, suggesting that he might want to consider selling his posters there as well. Hershenson checked out the site, but was not impressed. In his mind, eBay was nothing more than an online flea market and certainly not a place where serious collectors would turn to find rare and valuable movie posters.

"It looked like absolutely nothing," says Hershenson, smugly believing that his was the preeminent method of selling posters. "I could not believe this was my competition so I completely ignored it for a year."

In that year, the chatter about eBay kept growing. The site was growing up, too, attracting more bidders and higher-caliber sellers, as well. By 1999, Hershenson knew that he couldn't ignore eBay any longer.

Hershenson, who has written or contributed to more than 30 books about movie posters, found that these vintage collectibles sold for much more than their market value on eBay because sellers were posting them at high fixed prices and uninformed buyers, in turn, were paying the inflated rates. Hershenson even suspected that his customers were buying posters from him for $20 and then reselling them for $100 on eBay.

In 1999, when Hershenson finally began posting things for sale on eBay, he could have taken the same approach of inflating his prices and capitalizing on bidders' ignorance. But he had visions of more than a quick buck. He wanted to build up a loyal clientele on eBay, just as he had done with his catalogs, so he ran his eBay auctions just as he ran his other auctions. Every auction started at $2.99, and the high bidder set the price, not Hershenson.

powerpointer

Treating people right—and building up a loyal clientele—is more important than making a quick buck.

Initially, as he learned the ins and outs of eBay, Hershenson sold things from his own collection. He lost a lot of money in his first six months in business. But Hershenson stomached the loss with gambler's logic, figuring that if he stayed in the game long enough, his luck was sure to change. Hershenson, however, had more than luck on his side. With his bargain-basement prices, he was skillfully building an online customer base and manufacturing demand for his auctions.

"I sold about $50,000 worth of stuff for about $10,000," says Hershenson, whose primary eBay user ID is "emovieposter.com." "I took a bath, but it got to where everybody went to my eBay auctions every week because [they felt like I

was] giving stuff away. And I really was. Because customers were truly opening up packages and discovering they'd got $100 worth of stuff for $30, they were sure to be back the next week. It caught on."

With printing and mailing costs rising, Hershenson decided at the end of 2001 to shift all of his business to eBay. Despite warnings from other collectors and experts in his field, Hershenson also opted to stop conducting an annual major auction house sale of movie posters. EBay became his *only* sales channel.

"Everybody told me that it couldn't be done there," Hershenson recalls. "They said, 'eBay's a flea market. You can't sell expensive things there.' "

Hershenson proved them wrong—in a big way.

At the end of 2001, he posted his first major auction of posters on eBay. Mimicking what he would have done at Christie's, Hershenson assembled a collection of hundreds of rare and valuable posters and spread the word among the hobby's biggest spenders. He posted all the items on eBay, scheduled the auctions to end over a two-day period, and then watched the bids pour in from all over the world. Once all the bids were tallied, Hershenson had earned more than $776,000 on his auctions, with each piece selling for an average of $1,000.

Hershenson has completed more than 150,000 auctions on eBay. Since switching to eBay full-time, his company's revenues have increased every year—from $1.89 million on 31,000 auctions in 2002 to more than $2.8 million on close to 40,000 auctions in 2004.

Hershenson makes most of his money auctioning moderately priced vintage posters. His average sale is $50 to $60. But several times a year, Hershenson conducts major sales, in which he auctions off premier-quality merchandise that commands higher prices. His most lucrative single eBay auction closed in December 2002 with the bidder paying $67,300 for two linen posters advertising the 1915 landmark American film, *Birth of a Nation*.

Hershenson still has a traditional auctioneer mentality, and he conducts his eBay sales in the same manner he conducted his auction house sales.

Unlike many eBay sellers who are continuously posting new merchandise on eBay, Hershenson begins auctions only once a week. Every Tuesday around 7 P.M. Central time, he posts another 500 to 2,000 items for sale. The schedule allows Hershenson and his 12 employees to devote certain days of the week to certain auctioneering tasks and to manage their time better. Following this structure also helped Hershenson train his customers to visit the site every Tuesday night to bid on the auctions that are closing and to check out the week's new offerings. Hershenson's web site, www.brucehershenson.com, provides a further portal to his ongoing eBay auctions and a teaser of what will be for sale in weeks to come.

powerpointer

Consider posting new merchandise at the same time and day every week. Customers appreciate such regularity, and it will make your operation more structured. In between, provide teasers on various sites detailing what merchandise you will soon be putting up for bids.

"That's part of my success," says Hershenson, whose company is based in the small town of West Plains, Missouri. "Everybody that collects movie posters knows that on Tuesday night you can go on eBay and [find] the auctions that I have ending."

Hershenson, a 51-year-old father of five, is arguably one of the nation's preeminent experts in movie posters and advertising. He has a unique understanding of the psychology of those collectors who buy from him. As a result, each week's offerings usually fit a particular theme and are targeted to a narrow niche of poster collectors. Around Halloween, for instance, Hershenson auctions multiple lots of horror movie posters. Other weeks, he might sell only photographic stills from movie sets or posters from Warner Bros. films.

powerpointer

Build weekly auctions around a theme—especially around the holidays or other special events.

When he first started selling on eBay, Hershenson's approach to merchandising was more shotgun than rifle shot. Helpful friends warned him not to sell too many similar items in the same week. In those days, Hershenson wouldn't put five posters from five different John Wayne movies up for bid in the same week. He followed his friends' logic that he needed to space the auctions to hit a wider audience and to allow niche collectors time to save more money.

"But those things evolved," Hershenson shares. He believes his current selling strategy is the best method for driving up bids and prices.

"My argument is that if you offer one of something, people say—reasonably—'I probably won't get that. Someone is going to outbid me, so what's the sense?' But if there are five of them, you think, 'Well, I'm sure to get one of them if I make even an attempt,' " Hershenson says. "So, when I've brought together re-

ally good collections of things, they've tended to do much better than they would have piece by piece by piece."

powerpointer

Sell like items as part of a collection, instead of piecemeal, to bring in more—and higher—bids.

Given the nature of his products, Hershenson draws from a much narrower field of customers than many Titanium PowerSellers, whose consumer goods appeal to a wide range of bidders.

Though his posters occasionally sell to people looking to decorate a bedroom or an office, most of his bids come from dedicated collectors who are looking to increase their cache.

Hershenson's customer database—people who have bought from him before—includes thousands of poster collectors. But rarely are the same people bidding on his auctions week after week.

"I sell to about 400 people a week, but they're not the same 400 people every week," he says. "This week there are 400. But next week's 400 might include [just] 20 carryovers from the week before. I've got 20,000 customers overall, but any given number of them might be interested in five or ten of my auctions during the course of a year."

powerpointer

Don't feel you have to reach for the masses. A higher-priced product with a small, but loyal, following can prove to be very profitable.

Hershenson believes his business benefits by drawing from such a large, but ever-changing, pool of customers. "If I was hitting the same exact people for 52 consecutive weeks, they would run out of money or run out of interest," he insists. "It would be too overwhelming. But since I have something for them only once a month or once every two months it works out well."

Everything that Hershenson sells is vintage—at least 10 years old—and the vast majority of his posters were produced before the 1960s and 1970s. As a result, Hershenson and his employees spend copious amounts of time examining every item and writing descriptions of them for eBay bidders.

On Wednesday, as payments for the current week's auctions are arriving from winning bidders, Hershenson and his employees busily prepare for the next week's auctions. They measure any tears in posters, count the creases in photographs, and assess the condition of every item, rating them "fine or better," "very good," "good," "fair," and so forth, according to generally accepted collecting standards. Before auctions go live, Hershenson personally checks each listing for any mistakes.

Hershenson's detailed descriptions help bidders determine the quality of merchandise they're bidding on, but his photographs are probably his best sales tools. Every eMoviePoster.com auction includes a thumbnail-sized image of the item for sale. Shoppers can click on that thumbnail to see a medium-sized view. Or they can click on another link to supersize the image so it almost fills the computer screen.

powerpointer

Allow bidders to view photos of your items in various sizes—including supersized close-ups.

"We always put on good photos, but now that we have an enlargeable supersize photo, that's really helped a lot," Hershenson says. "You can look at that giant photo and you can find any little flaws, for the most part, that are there."

Large photos can be a great selling tool on eBay, but only if used wisely, as Hershenson has done.

Only about 51 percent of Internet users in the United States subscribe to broadband, or high-speed service. The rest of users—49 percent—access the Internet using a modem that connects at speeds of 56 kilobits per second or slower, according to *The Bandwidth Report* and *Nielsen//NetRatings*.

Web pages featuring huge photographs usually load instantaneously for broadband users. But Web surfers who are still dialing in to the Internet with a modem may have to wait several minutes for large photographs to load. And many of them may give up before the photos load, and click to another auction listing or Web page.

Hershenson knew he would alienate a good percentage of bidders if he posted the big pictures directly in his auction ads. That's why, like McDonald's, he has given his customers the choice to supersize or not.

Through the years, Hershenson has also figured out ways to make his eBay experience simpler. Because each piece of his inventory is unique and must be fully described, Hershenson isn't able to automate his auction listing process as so many other Titanium PowerSellers have done.

But he has figured out a way to save time during the shipping process. Not only do Hershenson's weekly auctions fit a theme, but they also all fit in the same packaging. That allows employees to package orders with assembly-line speed and regularity.

"I sell all posters of one size in one week," he explains. "This week, I'm only selling ones that fit in 32-inch tubes. Next week, I'll sell only ones that fit in 11-by-14-inch flat boxes. That's the only way to do the volume that I do."

powerpointer

If practical, put items of the same size up for sale at the same time to make the packing and shipping process easier.

By now, with 150,000 eBay auctions closed, Hershenson has pretty much run through his personal collection of posters. Beginning in 2000, he began auctioning posters on consignment for other collectors and taking a commission on every eBay sale.

Years ago when Hershenson would encounter someone who wanted to purge their poster collection, he'd offer two options for doing so. Either he'd buy the items from the collector outright or he'd accept them on consignment and try to sell them on eBay.

"Then I realized there's just a giant conflict of interest there," he says. "If someone has something that's worth $5,000, if I can get them to sell it to me inexpensively, I'm going to make a lot more money than if I sell it on commission. So, I'd have an incentive to try to buy from them, and I'm not on the same side as them."

Around 2002, Hershenson switched to a consignment-only business model—which saves him money in costly overhead and changes his relationship with suppliers from adversarial to cooperative.

"There's no conflict of interest," he explains. "My goal then is to get the most money possible for that item, and I get a percentage. The more it goes for, the more I get, and the more they get. So, it makes people a lot more comfortable to know that we're not at any cross interests."

In many ways, Hershenson says, his business is like an eBay drop-off store. But unlike these stores and most trading assistants, Hershenson specializes in a single type of merchandise.

"That's basically what I am—an eBay drop-off store for movie posters only," he observes. "To me, that's why I'm successful. You can't sell absolutely everything, because you need to have added knowledge. You need to know more than the person [consigning the item] to you. And I know a huge amount more about movie posters."

On his web site, Hershenson maintains a database of every poster he has ever sold through auction—on eBay, at Christie's, and in other venues. It's a great tool for buyers and for collectors thinking of consigning their posters to Hershenson. His database gives collectors a good idea of what a particular poster will fetch on the open market. Hershenson also uses the database to determine whether he should accept a consigner's inventory.

powerpointer

Offer tools to help bidders and consignors better understand the value of merchandise you are trying to sell.

You can find similar historical sales information on eBay by conducting a search of completed auctions. While eBay's search results go back only a month, Hershenson's span 15 years. (Although it's only possible to search the last month's worth of completed auctions on eBay, some third-party companies offer more historical sales data for a fee.)

Often, Hershenson will turn down consignment items, not because he's afraid they won't sell at any price but because he's afraid they won't sell for a price that will please the owner.

"Every day, I have people call me who last year bought 10 posters for $100 each. And I can't do that because they paid $1,000 [and they] might get $400 back," he says. Instead, Hershenson gives advice to those consigners: "You need to sell them a different way. You should put them up on eBay at a fixed price, [and] try to get the money you want to get for them."

Only recently, Hershenson began selling some items in the "Buy It Now" format through a second eBay name, "emovieposter." He's experimenting with the fixed-price auctions in hopes of building another destination site for poster collectors, especially those who don't enjoy the competitive auction environment.

But don't expect Hershenson, a former professional gambler, to ever back away from auctions. He's one of those people who finds a thrill in risk. And for a merchant, selling hundred-dollar items in no-reserve auctions with a 99-cent starting price represents the ultimate gamble.

"My service isn't perfect for everybody," he admits. "It's designed for people who have posters that they bought at low prices that they now can afford to gamble with. That's what creates all the buyers—knowing that there's a potential for a real good buy."

TITANIUM TALK

Through a career that has spanned 15 years, Bruce Hershenson has sold more than $26 million worth of vintage movie posters and cinematic advertising through both traditional and eBay auctions. Once every week, he posts a batch of 500 to 2,000 posters for sale on eBay. Here, Hershenson talks about how he manages hundreds of auctions that all begin and end at the same time.

Q: Your auctions go live every Tuesday night. Walk me through your process for preparing items for auction and fulfilling closed auctions.

A: On Wednesday, we're simultaneously doing two things. We're preparing the stuff that just closed and getting it ready to send out [to buyers]. But we're also getting the stuff ready to sell for the next week.

An item gets photographed first and then it gets entered into the computer with the name of the owner of each item. The photograph gets attached to that entry, and then the description of that item and the condition get attached.

Then there's a guy who assembles all the components into a completed auction. I personally double-check all the auctions.

Q: Why do you double-check all the auctions?

A: I think that's the main difference between me and my competitors [where] there's not any one person overseeing things, so there are lots and lots of careless mistakes that creep in because nobody is really on top of it. There's no person making sure everything is right.

Q: How long does this auction prep work take?

A: All those steps are taking place on Wednesday, Thursday, and Friday. Come Monday, we create the auctions. Tuesday night, they're posted on eBay using Turbo Lister.

Q: What's your shipping process?

A: Once the items go on eBay, we have them all assembled [at our offices] in the exact order they were posted. So, if there are a thousand items, there are a thousand things assembled in order of posting with a tag on each one that identifies its eBay item number.

Q: What happens after another batch of auctions ends on Tuesday night?

A: The next morning a program we created prints out what everyone bought. So, if you bought seven items, it shows all seven items, starting with the

lowest numbered one. We go through [and pick the orders] and first divide everything according to who bought what to make sure there are no mistakes. Then, we pack all the items. Usually, there are about 400 buyers, so it takes Wednesday and Thursday to get those packed. But by late Thursday, we're sending out just about anything that's been paid for.

Q: Again, you're double-checking every order before it goes out?

A: That's the thing I'm proudest of. About one out of every thousand things are sent to the wrong person, and only one out of every 500 customers doesn't think we did a good job of describing the item. At the most, maybe one out of every 400 or 500 items comes back to us on average.

Q: What's your return policy?

A: Anything can be returned for a reason. You don't even need a reason. If a poster has a three-inch tear that we called a two-inch tear the customer can return it and I will pay the return shipping so that they lose nothing.

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profile

eValueville

Andrew Waites' eBay business was launched with the help of 50 Kenneth Cole leather jackets. But the story of his success really begins four years before the coats came into his possession. In the mid-1990s, Waites, who received an MBA from Regents University in Virginia, was employed in the school's development office, where he worked with big-money donors.

Bill Hudson, who ran Hudson's Salvage in Mississippi, came to campus to deliver a speech about his business. Waites was intrigued by Hudson's business model. The company bought damaged and overstocked merchandise and then resold them at its own value-priced stores throughout Mississippi and Alabama. Hudson's Salvage, which runs Treasure Hunt and Dirt Cheap stores, buys retail products that are "someone else's problem"—things like closeouts, leftovers from bankruptcies, freight salvage, end-of-season merchandise, and irregulars.

Hudson's Salvage started from adversity. The company's founder, H.C. Hudson, owned a grocery store in Palmer's Crossing, Mississippi, that caught fire. Hudson bought the smoke-damaged groceries from the insurance adjuster and literally ran a fire sale, advertising "Smoky Groceries, 50% Off." The customer response was so overwhelming, H.C. Hudson found himself in a new retail business, and he searched the country for other distressed products to sell at deep discounts in his Mississippi grocery store.

Waites, who worked with the university's biggest donors and was ready to test out his MBA in the business world, approached Hudson after the lecture and eventually was hired as the company's vice president for inventory and procurement. His job was to find items to sell in Hudson's stores. Waites soon discovered a new source of product: customer returns at department store. These items were a multimillion-dollar annual headache for most department stores, but they were a treasure trove for Hudson's, which could buy the merchandise cheap, sell it at a huge discount at its own stores, and still turn a profit.

powerpointer

Returned merchandise, which cannot be resold as new at stores, is a good source of inventory and is often available at cheap prices.

Eventually, Waites left Hudson's and started his own company, Inventory Procurement Systems (IPS), which bought returns and overstocks, and sold them to other retailers to resell.

That was IPS's mainstay until the 50 leather jackets arrived in the summer of 1999. It gets darn hot in the South in the summer, and Waites knew there was no way he could sell heavy winter coats, even with a designer label, to shoppers in Alabama and Mississippi in the summer. Waites' assistant suggested he give eBay a try, so he did.

The coats wound up selling for about $250 each, about five times what Waites had expected them to go for. Waites realized that, while selling overstocked merchandise to retailers was profitable, he could also make money selling directly to consumers through eBay.

He then started another company, eValueville, to sell exclusively on eBay. Waites rented cheap warehouse space in Hattiesburg, Mississippi, and hired mainly single mothers to work on the Internet side of the business. He set daily production quotas for his employees to hit but allowed them the flexibility to create the ads on their own schedules.

powerpointer

Set daily production quotas for employees, but give them flexibility to arrange work schedules that fit well with their individual lifestyles.

"I personally have a heart and a mission for single moms," Waites says. "I think that is the most difficult job in the world, being a single parent. Trying to be both a mom and a dad at the same time is very difficult. We structured our production system around meeting the needs of single parents, so it's a total flextime system. As long as they meet certain production quotas, I don't really care when they come in. That allows our employees to meet the needs that they have as parents as well as breadwinners."

powerpointer

When choosing a location for your business, think about how expenses such as building rent and employee salaries will affect your profit margin. You may be able to save lots of overhead by locating in a small town or a suburb rather than a big city.

Waites, who often passes off his success as sheer luck instead of business acumen, had several advantages when he began selling clothing on eBay. Through his successful existing company, IPS, he had already built strong relationships and negotiated good pricing deals with department stores, insurance companies, and other businesses that could supply him with a steady stream of inexpensively priced inventory.

Additionally, he was headquartered in Mississippi—where space and labor are cheap. In fact, Waites told author Adam Cohen in the 2002 book *The Perfect Store: Inside eBay* (Little, Brown) that he could find "more people willing to work for minimum wage than I can hire" in Mississippi.

Warehouse and office space, which Waites has a lot of, both in downtown Hattiesburg and in surrounding neighborhoods, is just as inexpensive.

"We don't have a lot of overhead," Waites notes. "We're a low-cost producer of creating ads and selling merchandise on eBay, and a lot of that is based on where we're located. We can do this less expensively than anybody, I would think."

These three factors—being able to hire labor, buy merchandise, and rent space for low rates—helped Waites put more profit in his pocket with eValueville than he'd ever done with his offline businesses.

As eValueville's volume of online auctions increased, the company graduated to Andale's bulk listing tool, Bulk Lister, and then finally designed its own software system to manage and automate auctions and make it easier to quickly create multiple eBay postings.

powerpointer

Automate the process of managing auctions so you can list many items for sale in the shortest amount of time.

By 2003, eValueville had an exclusive deal to liquidate Bloomingdale's customer returns and overstocked merchandise. The company was posting close to

1,000 auctions a day on eBay and was one of the site's top sellers, having closed more than 300,000 sales. But behind the scenes, things weren't going as well as the numbers showed. In fact, eValueville, one of eBay's first success stories, almost became one of the auction site's earliest casualties.

Halfway through 2003, Waites began looking hard at the online side of his business. Sales were still relatively strong, and he had no doubt he could keep chugging along at the same pace. But just like an investor in the stock market, Waites was looking to increase the value of his investment. He wanted eValueville to grow, not stagnate. In order to do that, the company needed to ramp up its volume of eBay auctions.

Specifically, Waites wanted to expand his eBay venture beyond clothing and into other categories on eBay. He wanted to transform eValueville from a niche seller to a more dominant eBay retailer by offering merchandise in many categories.

With his experience in the salvage business, Waites knew he would have no trouble finding other types of merchandise to market on eBay. What he wasn't sure of was how he would actually manage those sales, given his own technology tools.

In early 2003, Waites' company switched from FairMarket auction management software to ChannelAdvisor, hoping that the new tool would enable the company to easily begin selling in volume in other categories. Just before making the switch to ChannelAdvisor, Waites purchased a large lot of damaged electronics. His plan was to have students from a co-op program at a local community college repair the consumer electronics items, then resell them on eBay. But when the venture didn't prove as profitable as he had expected, Waites ultimately abandoned it, saying the margins were better with clothing.

Grasping for another way to increase eValueville's sales, Waites began making plans to build an e-commerce site where eValueville could sell directly to its customers without using the eBay platform. The company had a web site, but customers couldn't buy there directly. Instead, the site directed them to the eValueville store on eBay.

Waites, however, had an inkling that an e-commerce site could be a good source of revenue for eValueville. He expected the site would be particularly popular with his business customers—mostly mom-and-pop retailers—who account for 25 percent of eValueville's sales. And unlike most upstart Web retailers, eValueville already had traffic at its site. In fact, a reported 63 percent of its eBay customers find the company first through its web site.

But Waites' plan to build his own online outlet never came to fruition. That left eValueville at a crossroads. To grow, the company needed to sell more goods without sacrificing its profit margin. Selling electronics hadn't been the answer. And the e-commerce web site, Waites' other revenue-generating plan, was never built.

While clothing sales on eBay provided a good profit margin, Waites didn't know of a way to sell more using the existing inventory management and auction management tools the company employed.

"Our technology wouldn't support continuing to grow our business," he reflects. "And our cost of goods was getting more expensive. It was just not a good environment." So, Waites made a difficult decision. "We decided this really wasn't a business that we could grow," he says. "As an entrepreneur, I have a number of businesses, and what I'm interested in is businesses we can grow. I basically decided we would exit this business and invest our resources in those that did have growth opportunities."

powerpointer

Invest your resources in those areas that have the most growth opportunities.

During those last few months, Waites' employees at eValueville put the remaining inventory up for sale on eBay, knowing that with each listing, their company was nearing its death. Finally, the inventory was gone, and eValueville was basically no more. Or so it seemed.

About three weeks after the final eValueville items had sold on eBay, one of Waites' suppliers called him, desperate to get rid of a huge load of unwanted clothing. For eValueville, that phone call was like a last-minute death row reprieve—and just what Waites needed to reinvigorate his business.

The supplier's offer was one of those once-in-a-lifetime, almost-too-good-to-be-true deals that salvage guys like Waites can't resist. "They had a problem," Waites explains. "They had an unusually large amount of inventory that they were willing to sell at an unusually cheap price."

Waites was more than willing to risk the money he'd have to spend buying the merchandise. He had enough experience in the salvage business—and on eBay—to know the clothing would sell for a nice profit. But he still didn't have confidence in his company's ability to list such a large amount of merchandise effectively on eBay, given its current technology infrastructure.

powerpointer

Look for excess inventory others are willing to sell for pennies on the dollar.

The software, which had been a godsend when eValueville's programmers first designed it, had devolved into a bit of a clunker as the company tried to squeeze

more and more functionality out of it while increasing its auction volume. Three full-time computer programmers spent nearly all of their workdays fixing the Linux-based system each time something went wrong. "We're pushing a lot of volume through a relatively small pipeline, and it can be pretty cumbersome on an IT system," Waites explains. "The way our system was built, it required a lot of maintenance."

With the inventory procurement deal of a lifetime within his grasp, Waites called eBay for help. He explained his problem and asked for help in finding a solution. EBay directed him to Rob Ratterman, a former rival in the online auction world.

In 1996 Ratterman and a college buddy, Chris Downie, quit corporate jobs to start their own business. By 1997, they had launched their own online auction site, Up4Sale.com, which was supported by advertising instead of seller fees, as eBay is.

A day after registering its initial public offering of stock with the Securities and Exchange Commission in July 1998, eBay announced it was buying Up4Sale from its founders and their two business partners. (They were paid in eBay stock worth $70 million.)

"The founders and employees of Up4Sale share eBay's vision of what it takes to be the world's personal trading community," eBay chief executive officer Meg Whitman said at the time.

Later, Ratterman, a self-taught computer programmer, founded CanDo, a technology solutions company in northern Kentucky. That's where Waites found him.

"EBay said, 'Really, there's probably one person in the country that can build a system robust enough to handle your activity: Rob Ratterman,' " Waites recalls.

In addition to being the brains behind Up4Sale, Ratterman wrote the first auction listing programs for eBay. "Mister Lister and those [other original] programs are all his programs," Waites says, "so he really was uniquely positioned to help me with my problem."

The solution CanDo designed revolutionized eValueville's business, giving the company the ability to list more merchandise quicker than it ever had before.

powerpointer

If you can't find auction management software that fits your business, consider hiring your own programmers or outsource the job to professional software developers who can tailor a technology solution to your business.

The revived company, which operates under the eBay user ID "evalueville," began using the CanDo-designed software on a beta-testing basis in February 2004. By March, eValueville started running all its listings through the new software, which Waites has christened AuctionHere.

"Our labor cost went down about 34 percent and our productivity went up 27 percent," Waites says. The reason was simple: Employees were able to create and post auctions quicker than they ever had before. The new software generated another cost savings, as well. Waites no longer has to employ three programmers to keep patching the listing software. CanDo's creation, which was built using the Windows platform, is robust enough to handle any volume of ads Waites' employees can create.

Ratterman "married our process with a computer system that allowed us to really scale the business," Waites says. "Consequently, when we rolled it out, it's just been an amazing solution for our technology infrastructure problems."

Thanks to the software-driven improvements in efficiency and volume, eValueville generated a projected $4 million in revenues on eBay in 2004 through thousands of clothing auctions that each began at 99 cents.

"We became much more profitable using the new system," Waites says. "We have people that create 300 ads, 300 auctions a day. That's 300 unique pictures, 300 descriptions, and the cataloging and inventorying of 300 unique items.

"They do everything—from unpacking [the merchandise] to getting it ready to ship when the auction closes—the whole shebang," he says. "That's a tribute to this software and the process that we've developed."

The software program eValueville now uses isn't really an auction management or inventory management tool. It's a listing tool that helps sellers trim the steps and the time it takes to create an auction ad for eBay.

"Obviously, you want as little input as necessary to have the largest output—that's Economics 101," Waites says. "When we started eValueville, I would have people creating 20 to 30 ads in an eight-hour day, and that's pretty standard right now even. With our software our average person will produce 225 ads a day. So, when you crunch the numbers and have that kind of productivity lift it increases our revenue substantially."

powerpointer

Invest in the technology you need to make your business more efficient—even if you have to build it yourself.

Waites is careful not to reveal all the secrets of the software to protect his own advantage in the highly competitive eBay marketplace. But he did talk specifically

about two areas where his listing software saves significant amounts of time—photographing items and describing them.

Most eBay auctions start with a picture. Typically, every time a seller receives a unique item, that piece of merchandise has to be photographed using a digital camera. Then the image is downloaded to a computer, cropped, edited, enhanced, and saved into a file. Later, that file is added to the auction, in yet another manual task that the seller must perform.

In eValueville's production offices, employees take pictures just by clicking a mouse. Each employee's workstation includes a digital camera that is connected directly to the employee's computer. The camera is one you could buy right off the shelf at any Circuit City or Best Buy, Waites says. CanDo's programmers worked with Olympus to integrate its digital camera software with the made-to-order software solution. To take a picture, employees simple set the item in front of the viewfinder and click their mouse button.

That one motion, which takes a tenth of a second at the most, Waites says, accomplishes many tasks. "It automatically takes the picture, saves the file, puts it in the ad, and uploads it to the server," he shares. "So, all the operator does is mash a button with their mouse and [everything's] automatic.

"The software controls the camera, not the operator, so all it takes is the click of the mouse button to take another picture. It really doesn't take any more time to take more pictures. That's really, really cool. Also, the pictures turn out great, because we're not depending on the operator to try to take the digital picture. The camera controls all that."

powerpointer

Ideally, try to integrate your digital camera with a made-to-order software solution, so the process of photographing items is as easy as clicking your mouse button.

When they're ready to create an auction ad for eBay, eValueville's listers don't have to type a word. Instead, the software asks them a series of questions about an item—size, color, brand, original retail price, fabric, and style—and they choose from a series of predefined answers.

Once all those questions have been answered, the software system plugs those answers into an auction template and uses the same details to create the headline for the auction.

It works a little bit like the word game called Mad Libs. Provide some nouns and a few adjectives and—voilà—you've written an auction ad.

"We just predefined the variables and then those variables are asked by the

computer to the operator. [The operator is] simply answering questions," Waites notes. "That logical process allows a person that has no computer experience to create an ad for eBay in a matter of seconds. The core competency is that they have to be able to read. If they can read, then they can be successful."

The new software has not only improved eValueville's bottom line, but also enabled Waites to open the doors of his business to another group of people who, much like single mothers, often struggle to find and keep jobs. When the clothes begin piling up and eValueville's full-time employees get swamped with work, Waites partners with a local nonprofit agency to hire mentally challenged adults to help on the auction assembly line. Those temporary employees, none of whom have an IQ higher than 70, are able to produce 150 unique ads for eBay every day using the software, Waites says.

"We've used them several times, and they do a great job," he maintains.

The company's core business now—and always—is selling first-quality excess inventory from upscale clothing stores, including Bloomingdale's. A lot of what the company sells is out of season—wool suits in the summer and hot pants in the winter—and a lot of the Bloomingdale's items are delivered wrinkled because of how they were stored by the retailer. But customers are attracted by the 99-cent opening bid and the fact that they can buy designer-brand merchandise for 80 percent off retail.

powerpointer

Constantly look for ways to reinvent your company, especially in a time when your business is going through dry patches and sales of your existing products are slow.

The company closes thousands of auctions every day. To help its customers find what they're looking for, eValueville has a handy size chart on its eBay "About Me" page. The chart, which is replicated in Table 13.1, allows customers to quickly browse through the company's thousands of items. The chart is really like an online clothing rack. Customers decide what they're looking for—a coat, pants, suit, or dress—then they click on their size. That calls up a listing of every eValueville auction that fits those criteria.

Amazed by the impact CanDo's AuctionHere software had on eValueville's bottom line, Waites' entrepreneurial spirit was stoked once again.

"There are other people who are in the same situation I was in," Waites says with certainty. "They would love to scale their eBay business, but they're limited by technology, and not necessarily on the auction management side. There are companies that do great things on the auction management side—

TABLE 13.1 eValueville "About Me" Size Chart

	All Items	Tops	Coats	Pants	Shorts	Skirts	Suits	Dresses
SIZES	XS	XS	XS	XS	XS	XS	XS	XS
	S	S	S	S	S	S	S	S
	M	M	M	M	M	M	M	M
	L	L	L	L	L	L	L	L
	XL	XL	XL	XL	XL	XL	XL	XL
	XXL	XXL	XXL	XXL	XXL	XXL	XXL	XXL

such as Andale and ChannelAdvisor—and we've used most of them, so we're pretty aware of what they offer. But really, the secret sauce is on the listing side. You must have been a PowerSeller to understand the pain of trying to create all these ads and manage a warehouse—really all the things that we go through as sellers."

As this book went to press, the two companies were developing a plan to bring their AuctionHere software to the commercial market, with versions for supersized sellers like eValueville and for trading assistants.

"The eBay statistics say that there is over $3 trillion in merchandise in people's homes that they would like to turn into cash but probably won't go through the effort to do so," Waites says. "My guess is that the company that figures out the easy way to help people do that will have a nice business. We're focused on doing that."

TITANIUM TALK

Andrew Waites was one of the original big-time sellers on eBay, landing a deal to liquidate items that customers had returned to Bloomingdale's. Waites, who has a Southern accent and a self-deprecating manner, is an expert at finding good bargain-priced merchandise and turning it into cash on eBay. Here, he talks about his approach to finding goods and selling them on eBay.

Q: What's your approach to buying inventory?

A: I may buy only two times and year, and when I buy, I buy big, meaning more than $1 million at a time.

Q: Your company, eValueville, is the liquidation arm for Bloomingdale's department stores. Do you have any difficulty now getting other retailers that are willing to sell their items to you?

A: Not at all.

Q: A lot of resellers like to get their merchandise from manufacturers as a way to reduce their costs because they're not having to pay a middleman. Do you ever deal directly with manufacturers?

A: We really don't like dealing with manufacturers because they tend to have depth of SKU—a lot of the same item—and eBay is not a great liquidation channel for us when we get a lot of the same thing. We want a lot of variety, and retailers tend to have a little more variety.

Q: A lot of eBay sellers have told me they prefer to sell merchandise that they can acquire in large quantities. But that's not your model at all, correct?

A: I want onesies and twosies. If I sold 2,000 things yesterday, I hope I had 2,000 unique items.

Q: When you're buying, how much of a sense do you have of what you're getting?

A: None. I know the number of units. Usually, that's about it.

Q: Are there brands you won't sell? And are you aiming for a particular price point or only designer-quality merchandise?

A: It doesn't matter. Over the years, we've just about tested everything.

Q: So, you don't have to be selling only designer-name clothing to be profitable?

A: Definitely not.

Q: Did eValueville really start with some leather jackets that you couldn't sell in Mississippi because of the sweltering summer heat?

A: Yeah, that's a true story. The Lord's been good to us. I tell people, truly, it's not because we're all that bright. This business could not have worked 10 years ago. We were in the right place at the right time with the right little idea, and things just happened for us, just like eBay introducing us to Rob Ratterman's team. Things just tend to happen well for us. I know that the Lord smiles on us for some reason.

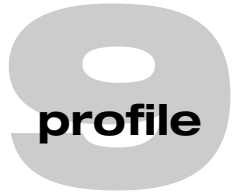
Q: Do you believe it's still possible for someone to start an eBay business today and grow it to the size that your business is today?

A: Absolutely. I think there are two keys to success on eBay. And you touched on it earlier. You have to have a source of product to grow a business on eBay, and you have to have an efficient operation to support all that. You can't spend your profit listing your item and shipping your item. Those days are gone, I think. But fortunately, there are tools that weren't available years ago to help you with the operations side.

So truly, the key is simply having a consistent supply of merchandise. And if you have that, I think eBay is as good an opportunity as it was when I started.

Q: I get the impression from talking to you and with other eBay Titanium PowerSellers that if you have a good business model, eBay sales are constrained only by things like not having enough warehouse space in which to store inventory and by your physical ability to post those auctions and fulfill them.

A: Well said.



Glacier Bay DVD

Anyone who says that no good can come from indulging your children hasn't heard Randy Smythe's story. Six years ago, Smythe's nine-year-old son got swept up in the Pokemon phenomenon. His son was dying to round out his collection of Pokemon cards, so Smythe decided to help out by buying boxes of cards on eBay. Father and son began a little ritual. Every time a new box of cards arrived, they'd open and go through it together, picking out those cards that the boy needed for his collection. Smythe repackaged and sold the rest on eBay or Amazon.com to other indulgent parents.

Smythe's goal in reselling the cards was to recover what he'd paid for them. He was only looking to break even, not to make a profit. But profit he did. "What I learned doing the whole thing was that if you bought correctly, you could make some money," he says.

At the same time he was buying and selling Pokemon cards on eBay, Smythe was looking to sell his current business and move into something with better growth opportunities. He immediately realized that eBay was the answer, and began searching for something other than Pokemon cards to sell on the site.

Smythe, a former television producer living in Placentia, California, approached his old producer buddies and offered to sell on eBay the short instructional and informative videos they had made on such topics as cigars and kid's soccer. He also cold-called video production companies and asked if they would let him sell their old inventories of how-to VHS tapes on eBay.

powerpointer

Look to sell items in industries where you have previous experience and solid industry contacts.

Smythe had some success with the VHS tapes, but not enough to build a business around. Sometimes those who were searching for other things on eBay would find Smythe's videos and buy them. But the titles weren't well enough known to garner multiple bids or to sell with any regularity. "While they sold, they didn't sell very often, so I needed to find something else," Smythe says.

Then, one weekend, Smythe attended a local swap meet and ran across a guy who was selling DVD movies he'd bought at surplus. At the time, DVDs were still *the* new thing in entertainment. Most people had VCRs in their homes, but DVD players hadn't yet become popular with the masses. Only so-called early adopters of technology had purchased their own DVD players. Because of that, DVD movies were difficult to find.

powerpointer

Strive to sell the new "in" thing that early tech adopters who frequent eBay are eager to own.

"That's when the idea kind of clicked," says Smythe, who remembers thinking, "I can sell a lot of these."

And he did. Almost immediately, Smythe's sales on eBay skyrocketed. His swap meet source couldn't provide enough movies to keep up with the demand on eBay, so Smythe began scouting for other supply sources. He eventually found some distributors who were willing to sell him products to resell on eBay. These deals provided Smythe with a steady source of DVDs, though because he was buying directly from distributors instead of at surplus, he paid more per DVD. That cut into his profit margin. Plus, because he wasn't a traditional retailer with a bricks-and-mortar store, Smythe had to build a rapport and reputation with his distributors before they would extend him credit on merchandise. If he wanted product, he had to pay for it outright.

"It's still a tough business on the Internet," he says. "Unlike a store, your [infrastructure] is a lot lower in an Internet operation. Basically, the distributors have nothing to go after if you go under."

Of course, that was never a problem for Smythe. From the beginning, his company, Glacier Bay DVD, experienced phenomenal sales.

In his first year in business, Smythe sold nearly $29,000 worth of hard-to-find DVDs on eBay. The next year, his sales catapulted to nearly $1 million. By 2003, Smythe was pulling in nearly that much every quarter. Sales grew steadily throughout 2003, at the rate of about 5 percent a month, helping Glacier Bay earn the distinction as eBay's largest seller of DVDs. In 2004, the company posted revenues of $5 million, making Glacier Bay one of the 30 largest specialty DVD

retailers in the nation. Still, that $5 million in sales accounted for just 5 percent of the DVD market on eBay.

"We were the first aggressive DVD seller out there, so that's why we were able to grow so fast. We were just putting up a lot of different product," says Smythe, whose eBay user ID is "glacierbaydvd."

When his company was young and he had less competition on eBay, Smythe ascribed to the philosophy that the best way to get bigger and grow his business was to post more merchandise for sale. At one time, Glacier Bay had as many as 14,000 different titles listed on eBay—about a tenth of its total inventory—giving the seller the right to boast having a "Selection as Big as Alaska."

Glacier Bay carries more than 140,000 entertainment titles. The company sells some music CDs and VHS tapes, but 98 percent of its inventory is in DVDs. You won't find new-release movies for sale at Glacier Bay's eBay store. The company specializes in hard-to-find titles and movies that have been out of theaters for at least six months.

"It's too competitive a market," Smythe says of new releases. "We lose money on those if we sell them because we can't be competitive. A Best Buy will sell [a new release] for $14.99 the first week, and we buy it for a lot more than that. We don't have a way to make a loss leader work for us."

powerpointer

Specialize in hard-to-find items, and not commodities that are readily available at most mass retailers for low prices.

But older movies are another story.

Glacier Bay DVD discounts all its titles 25 percent off retail, mimicking Wal-Mart's and Best Buy's pricing strategies. "People want that same experience, that same pricing online," he contends.

Though he matches the pricing of those chains, Smythe doesn't really view Best Buy and Wal-Mart as his competition because he doesn't think consumers go to those stores specifically to buy DVDs. People typically go to the big-box retailers to buy something else—groceries, toilet paper, a computer—and they might browse through the entertainment section while there. But when consumers are looking specifically for DVDs, they go straight to a place like Glacier Bay or a bricks-and-mortar store that specializes in entertainment, Smythe insists. He believes Amazon.com and other eBayers are a much bigger threat to his business than mass merchandisers.

Smythe posts his best-selling titles as three-day auctions, often with a "Buy It Now" option for a dollar more, so he can constantly move inventory and list his

most popular products again. (Unlike some of his competitors, Smythe doesn't list duplicate copies of the same movie for sale at the same time. Even though his auctions rarely generate multiple bids, "I'm not going to list multiple items so they compete against each other," he says.) Items that aren't as popular go up for sale in Glacier Bay's eBay store, where they're less expensive to list.

powerpointer

List popular items in three-day auctions with a "Buy It Now" option for those ready to meet your price right away.

In a commodity business like DVDs, where the competition for customers is cutthroat, it doesn't make sense to price auctions with ridiculously low opening bids, Smythe maintains. That's because the first person who bids is likely to win the auction.

"You will lose money hand over fist if you do a low opening bid because there are not enough [buyers] competing and there's so much competition [among sellers]," Smythe says.

powerpointer

On widely available products with low price points, don't start auctions too low or you're bound to lose money because there is so much other competition where buyers can get the item cheaply. (They may bid on your site only to see if they can get the item for pennies on the dollar, compared to what they know they can buy it for elsewhere.)

Just as he's gotten wise about how to list his auctions and how to price them, Smythe has also learned some valuable lessons about shipping during his tenure as an eBay seller. In the beginning, Smythe used to haul all the packages to the post office by himself, sometimes carrying in as many as six bins at a time.

Glacier Bay DVD still deals with the post office, but not directly. To save shipping costs, the company routes all its packages through DHL's SmartMail service. SmartMail is what's known as an inserter into the postal service.

When you drop off a package at the local post office, it travels to a series of postal service sorting facilities throughout the country before arriving at the final recipient. Glacier Bay's packages skip those steps. Instead, its packages are

sent to a central DHL facility where they're sorted, then inserted deep into the U.S. Postal Service mail stream for delivery to the recipient. SmartMail handles "the most expensive part of the postal service business, which is the transportation to the farthest point," Smythe explains. "They give [the package] to the post office for the last mile, which is what they're best at. So, the post office gives them discounts for getting [the package] to them, and then they pass on those discounts to us."

powerpointer

Look to use efficient and low-priced shipping options, such as DHL's SmartMail.

Glacier Bay charges all customers a flat $4.95 fee for shipping, no matter how many DVDs they order. Shipments of one to three items go out through first-class mail within three days, and they'll arrive in the customer's mailbox usually within seven days. Bigger orders of four DVDs or more are shipped via the less expensive Media Mail and can take as long as 15 days to arrive.

powerpointer

For lightweight items, offer a flat-rate shipping charge, regardless of the number of products a customer orders from you. Then, ship the items through the most economical means possible.

Mail that leaves Glacier Bay's warehouse is metered, so that customers can't see how much Glacier Bay actually pays for postage. Sometimes eBay customers complain that they're overcharged for shipping if the amount of postage reflected on the package is less than they paid the seller for delivery. "The reality is when you actually have the amount that the postage was on the package, people are going to dispute it," Smythe reasons. "When we were doing it where we'd actually show postage, it would be $1.06 and we would charge $3.95; customers would balk."

But don't make the assumption Glacier Bay earns an additional profit on every transaction through its shipping charge. "There's a [misconception] that people make money on shipping and handling," Smythe says. Glacier Bay's shipping charge covers much more than just postage. It helps pay for packaging, eBay fees, and insurance.

powerpointer

Send out packages metered, with the actual postage amount hidden. That way, customers won't know how much you paid to ship the item, and won't complain they were overcharged for shipping and handling charges if the actual postage amount is less.

Unlike many eBay sellers, Glacier Bay guarantees every item it ships out. If a DVD is lost in transit, damaged, or even stolen off the buyer's doorstep, the company will replace it for free. A recent $1 hike in the shipping charge helps fund that guarantee. For customers, it's cheaper than the $1.30 the U.S. Postal Service charges for $50 worth of insurance coverage. (The Postal Service charges $2.20 for $100 worth of coverage and $3.20 for $300 worth of coverage.)

As his business has matured, so has Smythe's view of the eBay marketplace. Smythe is no longer driven to be the auctioneer with the most DVD listings, because that strategy is no longer the most profitable method for selling movies. That's because Smythe has more competitors selling DVDs on eBay than he ever did before.

"Just like every other business, when the market is young and you're the first one in, you grow substantially," Smythe says. "Then it becomes a [question of] how do you manage the changes in the marketplace. That's where we're at now. It's more of a mature market."

In the spring of 2004, eBay launched a feature called "Pre-Filled Item Information" that allows sellers to type in the Universal Product Code (UPC) for certain products like DVDs, CDs, and video games, along with the International Standard Book Number (ISBN) for books. After that code is entered, eBay accesses the Muze, Inc. database, which is the leading catalog of entertainment product information. Using data from Muze, eBay automatically fills in details about the item for sale—its title, the genre, and the leading actors—and pulls up a stock photograph as well. The computer automatically creates an auction listing for that product in a fraction of the time it used to take.

powerpointer

On commonly available commodity items, use eBay's "prefill" option. That way, you can simply enter a product's UPC or ISBN to automatically download all relevant descriptions, features, and even stock pictures.

Before pre-fill became available, Glacier Bay DVD built its own database of titles and had a similar method for quickly listing products for sale on eBay. The process of building the database was time-consuming and expensive, Smythe says, but worthwhile because it gave his company the ability to quickly and easily create auction ads—a distinct advantage over the competition. When the pre-fill tool became available, the playing field was leveled.

"Once eBay launched pre-fill, one of the biggest barriers to entry—basically having to put together your ads—was gone," Smythe adds.

Around the same time, more sellers from another eBay-owned web site, Half.com, where books, movies, music, video games, computer software, and electronics are sold at fixed prices, were migrating to the main auction site.

"The sellers [in our category] doubled and tripled," Smythe claims. "And some of these are the guys on Half.com who were established businesses. We have new competition coming in every day. We never had competition for 50 percent of our titles, and now we've got competition for every one of our items, and we've got three or four other sellers selling something similar."

With more goods on the market, Smythe began noticing that his auction conversion rate was dropping. That is, a smaller number of his posted auctions were actually resulting in a sale. For every item that didn't find a buyer, Glacier Bay DVD was essentially making a 40- or 50-cent gift to eBay, in the form of listing fees.

Glacier Bay DVD treats its eBay fees as a marketing cost. To be profitable, the company must keep those marketing costs in check—at about 10 percent to 15 percent of sales. After the introduction of pre-fill, Smythe noticed that number kept creeping up, sometimes reaching higher than 20 percent of sales.

To control those costs and to ensure profitability, Smythe knew he had to completely change his thinking about being an eBay auctioneer. During his first several years at the helm of Glacier Bay DVD, every business decision he made was toward the same end—increasing his auctions, thus keeping other sellers out of the market and improving his own sales on eBay.

"Had we continued to grow like we were, there wouldn't have been any reason to change because the strategy was working," he says. "It's a faulty strategy now with the market the way it is."

These days, Glacier Bay lists about half as many auctions as it did in its heyday, a strategy that has helped the online retailer control its eBay costs and keep a relatively stable conversion rate. Smythe's goal is to grow his profits, not simply his revenues.

powerpointer

Focus on growing profits, not simply on increasing revenues.

"Our sales are down because we're not listing as much," Smythe admits. "I could go back to listing 10,000 titles, and my sales would go back up. But they're not profitable sales. I'm not looking to do $20 million in sales and not make any money."

Many of his competitors continue to follow the same strategy Smythe did in the beginning. They're flooding the market with lots of product, some of it priced lower than Glacier Bay's. But Smythe believes those competitors will grow themselves out of business if they don't become more measured in their approach to selling on eBay.

"We actually have a competitor out there who's probably at this point selling more than us because he's listing around 5,000 more items than we are," Smythe shares. "But ultimately he's got a failed strategy because he's selling stuff for 50 cents less than us and, in some cases, a dollar. I don't know personally or specifically, but I *know* he can't be buying better [and cheaper] than us."

Smythe's new selling strategy also involves driving more business to his eBay store, where listing fees are substantially lower. Glacier Bay DVD still lists quick-moving items in the auction format, but customers who click on those links are also enticed to search the company's eBay store for other movies they must have for their collections. "You try to move people to the store where your listing fees are drastically reduced," Smythe reveals. "It costs you 2 cents [to list an item] for 30 days in the store, instead of an average of 40 or 50 cents to list an item for auction."

powerpointer

Move as much product as you can to your individual eBay store, where listing fees are significantly less than in the auction format.

Though some competitors now undercut Glacier Bay DVD on price, Smythe hasn't succumbed to the pressure to lower what he charges because doing so would reduce his profits. Instead, he's constantly searching for ways to trade on the reputation he built on eBay. Ultimately, Smythe believes, it's that reputation, which is some 380,000 positive feedback ratings strong, that will keep his company at the top of a crowded field of sellers.

He's not looking to exit eBay, as some frustrated sellers have done. But Smythe realizes the online auction site can't be his only marketplace. He's tested selling in other venues, including Amazon's zShops and Marketplace platforms, but ulti-

mately found that the fees there were too high to generate the profit margin he needs to run his business.

"Unless you stay small and you're a niche player, I don't know if you can make your eBay business your whole business," Smythe admits.

powerpointer

Don't rely on eBay as your sole sales channel.

For much of Glacier Bay's history, the company has treated its web site as a portal to its eBay auctions. Now that Glacier Bay's reputation is strong enough, thanks to eBay, the company plans to begin selling directly to customers from its own web site.

"I've got over 250,000 customers and eBay has been valuable [in helping to recruit them]. But to tell you the truth, I don't want to keep paying eBay for every purchase that [an established] customer makes," Smythe says. "If we've done business with a customer for a year or three years, it's extremely frustrating to continue to pay eBay every time he buys something.

"It's just like any other business when you're paying a salesman for a customer, and he doesn't do any work for that customer. You start reducing that guy's territory because you're paying him a lot of money for something he generated early on."

TITANIUM TALK

Glacier Bay DVD, in business since 1999, is the top seller of DVD movies on eBay. The company's founder and president, Randy Smythe, knows how to market online. Here, he shares his insights about creating DVD auction ads and keeping customers satisfied by offering added services.

Q: Since you don't sell new-release movies, who are your customers and what are they looking for?

A: In our particular case, they're looking for a specific DVD with a specific actor. There are people out there who have spent thousands and thousands and thousands of dollars on DVDs for their collections. I can't understand this, but if you're a Chuck Norris fan, you're going to get every Chuck Norris film that's out there. Even if they're bad films, you still like Chuck Norris. People like to fill their shelves with their own personal collection.

Q: Do you have a way of targeting those customers in your listings? For instance, do you include a cast list or at least the main actors' names in the description?

A: It's really difficult to do it on eBay. If you put too much information on the ads, customers just gloss over it. For the most part, people just want to see that it's the movie that they're looking for. Then they want to see how much shipping and handling is if they've never dealt with you before. Then they want to see what the price is and whether you are going to take care of it if it's defective or lost in the mail. That's pretty much what they look for.

On our web site, where you can search for an actor, it pulls up every movie that actor has done. But you can't do that on eBay, at least not with the tools that we've got right now.

Q: But you've been able to use your web site, www.glacierbaydvd.com, in that regard, to help people find movies from specific actors, directors, or in specific genres?

A: We've had the web site basically as a search engine for our eBay products so people could go and search for [specifically what they're looking for] and then they'd go to our eBay store and purchase the item.

Q: You're eventually planning to have a fully functioning e-commerce web site as well, where people can buy directly from you.

A: Right. What we're doing with it is fairly sophisticated. We're giving them a number of opportunities to basically build their list. So, if you're looking for a movie that you haven't been able to find, you can put that on your list. Then our system will go out and say, "These are the titles people are looking for; let's go find them." And the next time you check out your list, we'll highlight which movies are now available, and the next time you order you can go ahead and buy them.

Q: It sounds like you're becoming a buying agent, a sort of personal shopper, for your customers.

A: That's basically what we do anyway. If you read our feedback, many customers say we have "a lot of hard-to-find DVDs." They're hard to find because other sellers don't have the resources or the connections that we do. But they're not hard to find once you know how.

We're a retailer, but we're really just basically a buyer for people.

Q: Sounds like a great service.

A: My feeling is if customers like to deal with us and they know we always take care of them, they shouldn't go to anybody else. They shouldn't take a chance on it. They should always ask us, "Do you guys have it?"

Q: And on out-of-stock titles, your answer would be?

A: Well, we don't have it in stock. But we can order it.

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profile

Grapevine Hill

Another 5,000 pairs of shoes have arrived at Grapevine Hill's warehouse in Danvers, Massachusetts. The company's cofounder and vice president of technology, Mark Fitzgerald, is hoarse and still just a little tired from a late night at Fenway Park cheering his beloved Boston Red Sox. But there's little time for revelry this morning; no one has a free moment to linger around the break room coffeepot daydreaming about what would eventually prove to be the end of the Curse of the Bambino.

That's because back in the warehouse, there are thousands of pairs of Polo Ralph Lauren Collection shoes that must be sorted and inspected so they can be sold on eBay. And there are a scant seven people—the sum total of Grapevine Hill's staff—to accomplish this task.

Every pair is pulled from its box and checked by an employee in the company's receiving department. The inspection proceeds from the macro to the micro. Do the sizes match up? Are there a left and a right shoe in each box? Does what's inside the box match what the box says? Is the style correct? What about the color? Just how do the shoes look? Is the color true and not faded? Is the stitching even? Is the leather scuffed at all? Are the uppers pulling away from the soles? Are the soles worn at all from being tried on dozens of times in a department store?

"They're literally hand inspecting every pair," Fitzgerald says, "which we have to do because this is such a high-ticket-priced item. The condition we got the stuff in was sort of suspect. It was mixed up a lot. Some of the stuff came from stores that sent [unsold shoes] back to Ralph Lauren, then Ralph Lauren consolidated it and sent it back to us. As a result, sometimes there are mismatched sizes or mismatched styles in a box. We're looking for that kind of thing or even customer wear if it's been in a store."

This is what Fitzgerald means when he says that quality control can be brutal. But it's a necessary process for Grapevine Hill, which has built a multimillion-dollar business selling new shoes at discounted prices over the Internet.

"Comparatively, we probably do spend a lot more time than most everybody else out there in that quality control aspect of our business," Fitzgerald says. "But we've felt like it's been beneficial to us overall."

Grapevine Hill, which is headquartered just 15 miles north of Boston, is one of eBay's top sellers, operating under the eBay user ID "grapevinehill." In four years, the small company founded by three college buddies has become one of the auction site's leading shoe sellers, concentrating primarily on expensive, top-shelf brands including Ecco, Dr. Martens, Mezlan, Polo Ralph Lauren, Teva, Sorel, and Tommy Bahama. The company pulls in revenues of $4 million to $6 million annually and has a 99.9 percent positive feedback rating, virtually unheard-of for a company that conducts close to 9,000 eBay auctions every month.

Additionally, about 95 percent of Grapevine Hill's auctions close with a winning bidder—more than double the average eBay completion rate. "The only reason we have 5 percent [that don't close] is because we do have a couple hundred auctions up there that are fixed-price Buy It Now items. Those auctions sometimes don't close with a buyer," Fitzgerald explains. This represents shoes that Grapevine Hill has ample stock in, so the company continually relists those shoes until they are gone.

Jonathan Kuhlmann, Michael Ray, and Fitzgerald became friends at Gordon College, a Christian liberal arts school in Wenham, Massachusetts. Later, they became business partners.

In 2000, the three convened a summit expressly to figure out how they could start their own online business, using eBay as the backbone. They recognized that eBay provided the most direct route to customers and to cash flow. It was the one place online where they could quickly build brand recognition and customer loyalty without having to spend millions in advertising to do so.

Fitzgerald spent about 15 years in software development, so he had the knowledge necessary to build inventory control and other back-end systems for the business. Ray was a Sprint PCS dealer who had sold phones on eBay, so he brought the auction know-how. That left Kuhlmann, who worked in the footwear industry during the 1990s. Given his industry experience, he became the company's product guy.

The trio quickly decided to sell department-store-quality designer shoes on eBay, becoming the online equivalent of a T.J. Maxx, Ross, or other off-price retailer. At the time, there were hundreds of people selling shoes online, but only four or five significant competitors. No one sold the brands and the volume that Grapevine Hill intended to.

Then there was the matter of the name. Initially, the college pals wanted to call their business Grapevine Road, after the street where their alma mater Gordon College is located. That name also evoked the feeling they were trying to create: "We wanted a brand name that felt comfortable, that sounded nice, that kind of

had a feeling of comfort wear with a little bit of class but that wouldn't limit us to footwear," Fitzgerald recalls. "We knew we didn't want to be Greatshoes.com because we ultimately wanted to expand into some other markets as well."

An alternative rock band had beaten them to the Grapevine Road name and had also already registered that web site address. Fortuitously, when the friends made that discovery, there was a Garnet Hill catalog sitting nearby, and one of them suggested an amalgam as the name of their new business: Grapevine Hill.

"And it stuck," Fitzgerald says.

After some months of test-marketing and with a limited number of suppliers—intermediaries who bought shoes from manufacturers and resold them—Grapevine Hill incorporated in 2001 and went live on eBay.

"We entered the market with relatively few suppliers early on, and that was our biggest risk early on," Fitzgerald shares.

But the company quickly overcame that risk and solicited more suppliers. Through persistence and by building a reputation as a reputable seller, Grapevine Hill has virtually rid itself of the intermediaries. Now the company buys shoes directly from manufacturers, for better prices. The company has even convinced some very reticent shoemakers to allow Grapevine Hill to sell their products on eBay. Additionally, Grapevine Hill has adopted a pricing strategy that moves merchandise quickly and for high prices.

powerpointer

Deal with manufacturers directly—not intermediaries—to get the best prices on merchandise for resale.

The pricing strategy that Grapevine Hill uses is what works best for many high-volume sellers on eBay. The company sells most of its inventory through auctions that begin at a penny, even if the shoes would retail for hundreds of dollars. That strategy saves Grapevine Hill money on eBay listing fees and attracts many bids, which translate into higher auction closing prices because many eBay users compete against one another for the same product.

Though the penny starting bid appears risky, it really isn't anymore, Fitzgerald says. In fact, he can't remember the last time a customer walked away with a pair of shoes for a price that low. "Early on, I think there might have been one or two here and there . . . because it was something that was a really bizarre size, like a women's 13, and there wasn't a market for it," he adds.

On penny pricing, Fitzgerald says, "It is a difficult gamble to make, and I understand the people that are afraid to do it. I really do because you're not guaranteed anything. But we've got hundreds of thousands of transactions of historical

data now that tell us that it's safe to do it. You are going to lose money on some things. That's a very difficult thing to swallow. Like I said, very, very, very rarely does something ever close at a penny, but [auctions] do close at $13, $14, $15, and we paid $30, so we're losing $15 on that single pair of shoes. That happens on a lot of what we sell."

powerpointer

Start auctions at a low amount—such as a penny. Even though you may suffer an occasional loss when bids come in below your purchase price, in the end you'll come out ahead by stirring more bidding interest in your product.

Grapevine Hill's business model isn't built on making a profit on every single pair of shoes it sells, even though such a result would be nice. Instead, the company's goal is to be profitable in the aggregate—that is, to sell more pairs of shoes for above cost than for below cost. While Grapevine Hill successfully does that, for competitive reasons Fitzgerald won't reveal precisely what percentage of the company's auctions are profitable and what percentage lose money.

"On average, we're not losing money," he says. "I'm not going to try to hide anything or overhype. We're not making a whole lot of money; we are making a whole lot of revenue."

powerpointer

Focus on being profitable in the aggregate. In other words, realize that not all sales will be profitable, but that overall you will come out ahead by offering competitive pricing and quality goods.

In such a tight business, Grapevine Hill has many ways of improving its profit margin. The company has about 30,000 pairs of shoes in its warehouse, so there are bound to be duplicate styles and sizes. If the inventory of a particular shoe is very deep, Grapevine Hill will list that item for sale in multiple ways.

"A single size 10 of a women's shoe—that just goes to auction and it's gone," Fitzgerald says.

But let's say the company receives 34 pairs of Tommy Bahama brown Suede in the Breeze mules in size 8. One pair will be listed for sale through a traditional

eBay auction, with a starting bid of a penny. Another pair will be auctioned off with the Buy It Now option.

Then, Grapevine Hill will create a 30- or 60-day eBay store listing to sell the additional inventory. A store listing costs just a few pennies per item, compared to the average 70-cent listing fee that Grapevine Hill pays for a typical auction. (All of the company's auctions include a gallery image, a thumbnail-sized photo that allows bidders to preview items from eBay's search page.)

powerpointer

Put multiple items up for sale through various eBay channels, including regular auctions with little or no reserve, the Buy It Now option, and eBay stores.

The company uses its own historical sales data—what people have paid for the item in the past—to set prices for Buy It Now options and store inventory. For styles that Grapevine Hill has never sold before, the company conducts a "completed auction search" on eBay to find out what similar items have sold for in the past. It then sets the price accordingly. "Basically, we just have a formula set up [that asks] what was our cost and what do we want to recover on this," Fitzgerald says. The company also browses other shoe-selling web sites to see how much identical pairs are selling for there and sets its own store price, in Fitzgerald's words, "as competitively as possible."

Another way Grapevine Hill moves more inventory without incurring additional eBay listing fees is by giving losing bidders a "Second Chance Offer." If a seller has duplicate items, eBay allows the seller to e-mail the runner-up bidders and offer them the chance to buy that item at their top bid price. Sellers pay no listing fee, only a final value fee, if the bidder accepts the offer. Using Second Chance Offers gives Grapevine Hill a more consistent profit margin and reduces the number of times the company robs itself of profit by offering the same item for sale in competing auction listings.

powerpointer

When you have more inventory of the same item, make a "Second Chance Offer" to bidders who don't win your primary auction. That will save you from having to list the item again and will also cut down on your selling fees.

Grapevine Hill uses ChannelAdvisor's auction management software to manage its inventory and its eBay sales, and every eBay posting follows a set formula. An auction's headline includes details about the quality of the shoes—"New" or "Brand New," for example. Then the headline lists the brand name in capital letters, sometimes accentuated by eye-catching asterisks—such as *LUCCHESE*. Next comes the description of the shoes, with keywords in capital letters—OSTRICH COWBOY BOOTS. Sizing information is listed next—Women's 10W. Every headline also includes the manufacturer's suggested retail price for the item—$520.

powerpointer

Capitalize keywords and give customers enough information in your listing headline, without being too verbose and confusing.

The auction listings expand on this headline shorthand, the goal being to give customers enough information that they feel confident bidding but without confusing them.

"Everything you're telling a customer in an auction is either going to answer a question or create more questions," Fitzgerald points out. "You have to be careful how much you tell the customer because sometimes it can be even more confusing and create a lot more volume of e-mail or questions. There's a fine line there that we tread all the time. We try to tell the customer as much as we can so that their expectations are met fully when they get the product. So, if there's no box, we absolutely tell them that. We say, 'This pair of shoes does not come with a box.' You never want to say [shoes] are new in box [or NIB] and then ship a loose pair of shoes because that frustrates customers."

This is how Grapevine Hill described the Lucchese ostrich boots, which started at a penny ended up selling for $165.63 after a flurry of bidding:

> These boots are a size 10C (Wide) U.S. Women's. These handmade, very high quality *LUCCHESE 2000* Brown FULL QUILL OSTRICH Leather "T2518" Cowboy Boots are BRAND NEW, FIRST QUALITY, in the original *Lucchese 2000* box. The shaft on these boots is 12″ high. These boots have an "R" toe and the heels on the boots are the #4 heel, which is a $1^1/_2$″ heel. These boots are CERTIFIED part of the Lucchese's "2000" collection, which is the ULTIMATE in cowboy boots.

> No other boot fits the human foot like a Lucchese boot, thanks to Lucchese's original design and meticulous construction. Every pair of boots is crafted by hand in El Paso, Texas, USA. These very comfortable, very high quality boots are sold in very high-end stores and catalogs for up to $520.

Most of what you'll find for sale by Grapevine Hill are dress and casual shoes, which would retail from $50 to $500. The rule in the beginning—one that continues today—is that Grapevine Hill sells high-end or "close to high-end strong name-branded items," Fitzgerald says.

powerpointer

Stick to a specialty and focus on selling items that aren't easily available at cheap prices from a large number of bricks-and-mortar stores.

You won't find athletic shoes for sale—neither on the company's web site nor in its eBay auctions. The reason is simple: It all comes down to money. "Basically, all athletic shoes are readily available at any store, any discount store, at cheap, cheap, cheap [prices], and we can't buy them cheaply enough to make enough money in our business model," Fitzgerald says. "We've got a competitor on eBay that we happen to have built a pretty nice relationship with and that's what he specializes in—athletic shoes."

Because Grapevine Hill specializes in those shoes typically found at Nordstrom, Saks, and exclusive shoe boutiques, it was easy for the company to attract customers, even as a start-up. At least initially, Fitzgerald says, most of the company's customers already owned these brands. That's why they were willing to buy them online without touching the shoes in person or trying them on. Now the deals the company offers—name-brand shoes at clearance prices—attract even customers who have never owned, worn, or tried on a pair of shoes in that particular brand.

One reason is that there are very few risks for Grapevine Hill's buyers. If customers discover that their new shoes don't fit like Cinderella's glass slipper, they can return them to Grapevine Hill with little penalty. That's rare on eBay, where most sellers have no-return, all-sales-are-final policies.

"I think having a return policy that's customer friendly is one of the reasons we've done so well," Fitzgerald claims.

powerpointer

Have a return policy that allows customers to return merchandise—at their expense—and exchange the product for another size or style. The extra business you get will more than make up for the cost and hassle of offering this option.

If a customer bids on the wrong size of vampy Richard Tyler heels, she can send them back and exchange the shoes for the correct size, assuming Grapevine Hill has it in stock. However, the customer has to pay to send the ill-fitting shoes back and for shipping of the replacement pair. If the mistake is Grapevine Hill's, the company covers all return shipping costs and then some. "Very often we actually give them extra money back, a few extra dollars for the hassle," Fitzgerald says.

Aside from building its web site and placing a few pay-per-click Web ads, Grapevine Hill has spent relatively little on advertising in the past four years. Yet customers keep buying from the company, which projects its sales could grow to 15,000 to 20,000 pairs of shoes a month.

One way the company keeps itself at the top of customer's minds is by shipping all orders in boxes bearing the Grapevine Hill logo and web site address. The company also sends out occasional e-mail messages to former customers. When buyers win a Grapevine Hill auction, they're prompted at checkout to sign up for the company's newsletter. The company doesn't inundate its buyers with spam, but occasionally these customers may receive e-mail messages alerting them to a new shipment of their favorite brand.

powerpointer

At checkout, prompt customers to sign up for your occasional e-mail newsletter. That way you can get their permission to market to them at various times throughout the year, which keeps your name fresh in their minds.

By adopting smart solutions like ChannelAdvisor, which allows for automation and easy scalability, and through top-notch customer service, Grapevine Hill has truly built a brand identity that has quickly revved up its business, according to company founders.

From 8 A.M. to 5 P.M. weekdays, employees take phone calls from bidders, and

answer all auction-related e-mail messages, generally responding the same day. Orders are shipped five days during the workweek, with most shoes going out the day after payment is received. Because Grapevine Hill ships most orders through FedEx ground, customers generally receive their shoes in two business days if they live in New England and in six business days if they live on the West Coast. (Grapevine Hill's supplier agreements prevent the company from fulfilling orders outside the United States.)

Grapevine Hill makes it easy for its customers to pay, accepting Visa, MasterCard, Discover, American Express, and even checks or money orders. Buyers have 15 days to pay before their item is relisted.

"If a customer isn't thrilled with their transaction with us, they're not going to brag about it to somebody else. And that's one of our primary focuses really," Fitzgerald says.

TITANIUM TALK

When Grapevine Hill started in 2000, it was the dream of three college buddies—a salesman, a computer programmer, and a footwear industry veteran. The trio took a risk when they started their eBay business with very few suppliers. Within four years, Grapevine Hill's executives developed supplier relationships with such high-end shoe manufacturers as Mephisto, Allen-Edmonds, Rockport, Birkenstock, Kenneth Cole, Polo Ralph Lauren, and Timberland. Mark Fitzgerald, a cofounder and the company's vice president of technology, talks about how those relationships developed.

Q: Tell me about how you formed your early supply chain.

A: We weren't buying directly from manufacturers. We were buying directly from wholesale distributors that were cleaning out manufacturers. For example, there was a company that took all of Cole Haan's closeouts and we used to buy them from them, not through Cole Haan.

We started out buying from resellers, middlemen, third parties—what they call "jobbers" in the industry. You don't necessarily get the best stuff in the best condition from them, and you don't get it for the best price because there's somebody else in the middle of the deal. It was therefore tough to make the margin we were looking for. Over the course of the last couple of years, we've worked extraordinarily hard in building our vendor base and buying directly from the manufacturer, which at this point we've done with basically every brand we sell. We have a direct relationship with [the manufacturers] now.

Q: You sell a lot of high-end shoes. Have any manufacturers said no to your offer to buy their overstocks because they're concerned about maintaining their brand and controlling the channels they sell through?

A: We absolutely have run into that—early on a lot more so than now. These higher-end brands are absolutely not going to deal with anybody who hasn't been around the block a few times.

Q: Your four years of experience in the shoe-selling business on eBay certainly must help you close deals with suppliers. Does anything else give you a leg up on the competition—meaning others who are looking to buy these manufacturers' overstocks as well?

A: Most people out there looking for the kind of deals we're looking for are wholesalers. Most [high-end manufacturers] don't want to have anything to do with wholesalers. That's how they lose control of the brand.

We don't wholesale anything. We buy directly from the manufacturers, we stock everything in-house, and we ship directly to the end user—the customer.

With a manufacturer like Cole Haan, for example, or even Nicole Miller, where they're real hesitant [about selling on eBay], we keep coming back and keep showing our faces to them, saying, "We're still here. And we put shoes on feet. We don't put shoes in a warehouse and wholesale them to somebody where you lose control."

The other thing is we've worked very hard to build our brand image—the Grapevine Hill look and feel. We feel that is very strong in terms of the atmosphere it creates when you're shopping with us, and it's one that fits in well with most high-end retailers or manufacturers.

Q: Can your suppliers make demands on how their products are presented and sold through Grapevine Hill, just as they might control presentation at a Nordstrom department store?

A: They can make a specific request about how inventory is presented. They can request that we only sell it in our Web store, GrapevineHill.com, instead of eBay, although that wall is starting to come down more and more.

Q: Why?

A: They see what we do on eBay. They see how we sell. They see that we're putting the shoes out there on people's feet for a good price, and they see that other people are already doing it. They'd rather have us control it.

Q: Does it probably help that most of these brands are already for sale on eBay posted by individual sellers who are cleaning out their closets and by small resellers who might buy out a department store's clearance rack?

A: That's a huge sales pitch for us. They say, "We don't want our stuff sold on eBay." And we're like, "But you already are selling stuff on eBay. Go to eBay and type in Rockport, type in Cole Haan, type in Ecco, and it comes up with 3,500 pieces. You want us to control that for you."

Q: Why do you think manufacturers had been so wary of selling on eBay?

A: Some of them have looked at eBay as a yard sale or a garage sale, and they just don't want their stuff being sold at a yard sale. There's a little bit of a pride involved. They're protecting the brand from making it look too cheap by being sold at a yard sale. I think that perception is being overcome.

The other objection is that they must protect their traditional retailers. Because we're starting all of our auctions at a penny, the perception is that we're selling their goods for a penny, yet we never do. The product ultimately sells for the same price as what it would sell for on sale in a retail store.

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profile

Hess Fine Art

For Jeffrey P. Hess, being in the jewelry business once meant constantly being on the road. From the time he founded Hess Fine Art in 1984, Hess traveled the world to show and sell his wares, which mostly consisted of antique watches and estate jewelry. Every weekend, there was another watch show or antiques show to attend somewhere in the world.

"In the beginning, we were slaves to the show circuit," says Hess, who with his staff attended more than 30 shows a year.

While this was the best way for Hess to find a market for his unique and expensive items at the time, it was far from efficient or good for business. Security was always a concern, and it was costly to insure the inventory while on the road. Plus, employees didn't like leaving their families so often, and many resisted the frequent travel.

For Hess, being on the road this much also affected his ability to buy goods and keep inventory levels up. Hess Fine Art gets a large portion of its merchandise in its hometown of Saint Petersburg, Florida, from people who want to sell their treasures to the jeweler, and the company's most effective buyer—Hess—was always on the road.

That all changed in 1997 when an employee told Hess about eBay.

Hess was no stranger to computers or the then-fledgling Internet. In his work as a historian, he used computer archives to conduct research. He even used the computer for commerce, putting descriptions of antiques he had for sale on electronic bulletin boards—which these days are considered the grandparents of eBay and other e-commerce sites.

Interested in adding another sales channel, Hess agreed to let his employee try to sell some of the company's inventory on eBay. It was slow going at first. Back in those days, Hess Fine Art still used a very slow dial-up modem on a computer that, by today's standards, ran at a sluggish tortoise-like speed. Digital cameras weren't mainstream, so there was no easy or quick way to post photographs to accompany auction listings. And eBay wasn't as easy to use as it is today.

"It was a struggle to get this fellow to put up five things a day," Hess says. Even so, the auctions generated much more than a spark of interest among bidders.

"We noticed that we were getting really good prices for things," Hess remembers. "It was an interesting little sideline. I decided to put one person on [selling items on eBay] full-time. My goal was for him to post five things a day."

Day by day, the business grew and Hess began to realize the potential of selling on eBay. He decided that if he could get more people working on the online auctions he could sell more items every week and get better prices than he could in his store, on the show circuit, or by selling to big-city antiques dealers.

"In reality, the yield on eBay [today] is much lower than it was two or three years ago because there are a lot more [sellers] on eBay. Competition is more fierce. The economy is different, and the newness has worn off as well," Hess says.

"At one time, you could reach the hinterlands and you could sell a set of Gorham candlesticks for twice what a New York dealer would give you. Now, you can sell it for 20 percent more than what a New York dealer would give you."

That means you have to be more creative and work harder to stand out from the rest of the crowd.

In the late 1990s, Hess began hiring what he calls "mouse potatoes"—people savvy about computers and the Internet—strictly so they could create eBay auctions. Now, the company has a staff of five whose only job is to create eBay auctions every day. Three people work part-time creating the auctions. Another individual does nothing but answer e-mail from eBay bidders and buyers, while Hess and his wife, Katrina, also put in time at the keyboard.

A separate group of workers is required to log at least an hour a day at their computers sifting through the pile of e-mails. The company has recently begun using Vendio's Customer Manager software. This program filters e-mail into different folders by subject, so the company can more quickly sort through the thousands of eBay-related e-mails it receives and respond promptly to questions from bidders and buyers. Hess Fine Art also uses Vendio's payment management software—a checkout tool for customers. This saves the company time fielding phone calls and messages from people seeking to pay for their online purchases.

powerpointer

Respond to e-mail messages quickly, and sort them by category using a customer management program.

Three other employees work in the company's shipping department, packaging hundreds of items each week for customers. Another worker handles quality

control, inspecting each item before it is shipped to the customer. Hess also has a staff of three watchmakers.

Hess Fine Art, which operates under the eBay user name "hessfine," sells the types of things you might find at an estate sale. Hess is a horologist—or watch expert—so he always has many clocks and antique wristwatches and pocket watches ready for sale. The company also auctions off quite a bit of very valuable jewelry, such as diamond-encrusted pins from the 1940s, rings from the Victorian era, cameos from the turn of the century, and a variety of pendants. Silver—forks, spoons, knives, and serving pieces—is another big seller for the company, which gets much of its inventory from people who are cleaning out their attics and hoping to get some cash for their heirlooms.

Hess has also been very successful selling art on eBay. A Walter MacEwen oil painting from the 1800s garnered 34 bids and sold for $24,855 in a no-reserve auction in July 2003. Hess's other big eBay wins include a drawing by John Singer Sargent that sold for $44,000, an oil painting by John Pieper that sold for $25,000, and an oil painting by William Appel that sold for $22,000.

"Prior to eBay, we were all held captive by the New York market," Hess said in a press release at the time of the MacEwen sale. "Everything was sold through New York auction houses. EBay facilitates buying and selling of fine art by allowing a small gallery to reach an otherwise limited market. Selling on eBay is faster and simpler than selling through large auction houses. We are seeing increased activity on our auctions, with art selling at, or exceeding, our expectations . . . and quite often bringing as much, or more, than would be expected at a large auction house."

These days, Hess Fine Art posts revenues in excess of $1.8 million every year. To maintain that sales volume, the company sells about 300 items by eBay auction every week. Since 1997, the company has conducted more than 50,000 online auctions.

"Our goal now is [to post] 15 items per day," Hess says. "Sometimes we reach it, sometimes we don't."

Unlike many Titanium PowerSellers, Hess Fine Art doesn't use any auction management software. Hess believes these programs are too expensive for his purposes, so he has developed his own system to get items online, sold, and shipped to customers as quickly as possible.

The company's posters begin by snapping pictures of the items for sale. Hess likes to include as many as a dozen photographs so bidders can examine the product as closely as they would in his store. Items are displayed from multiple angles, with any defects or damage clearly shown, described, and detailed.

powerpointer

Display items from multiple angles and clearly highlight all details, including any flaws or imperfections.

"You've got to be honest and up-front," said Hess, who is a bidder as well as a seller. "A lot of times when I buy things on eBay, I buy this wonderful widget and sure enough, that one angle they didn't show has a big dent in it."

Not so with any item that Hess sells.

Hess employees use cameras that operate on what might be considered yesterday's technology to photograph items for eBay. The cameras, Sony Mavica 73 and 75 models, use conventional $3^1/_2$-inch computer floppy disks to store images.

"It's old technology," Hess admits, but in his mind it's the best camera for photographing jewelry and capturing a gemstone's complex cut, character, and sparkle. "It has the best light-catching lens."

Most cameras on the market today use other digital media storage formats, such as CompactFlash cards. Users transfer images by connecting the camera to their computer with a USB cable. But with the Mavica, the photographer pops the disk out of the camera and into the computer to access the images. The Mavica is known for producing small but clear and crisp images, and for capturing details.

Because the Mavica produces such high-quality, detailed images, Hess employees don't have to spend much time at all doctoring the photographs for the Web. In fact, Hess doesn't allow his employees to give their auction photos the *Playboy* treatment.

powerpointer

Use a high-quality camera that can create quality images requiring little or no touch-up work.

No airbrushing. No fiddling with the color. No cropping. No brightening. No lightening. It's point, shoot, and upload to eBay.

"For one thing, it [manipulating the image] changes the color of the items we're selling," Hess says. And besides, photo editing takes too much time.

"I have them take pictures and put [them] up," Hess adds.

As with the camera, Hess is also old-fashioned in his approach to creating auction ads. He has developed listing templates that contain nuts-and-bolts infor-

mation that applies to any auction: a few paragraphs about Hess Fine Art's history and reputation, the company's shipping and payment methods, basic contact information, and the like. When it's time to create a new auction, Hess and his posters import that information into eBay's online listing tool, then type in the details that are specific to that particular auction.

Each auction listing includes a quick eight-point recap of the item description. It's the CliffsNotes version for bidders who don't want to take the time to read Hess's prose.

Here's an example from a recently listing for a vintage filigree diamond pin:

- **Type of Jewelry:** Solid White Gold Pin.
- **Circa Date/Period:** 1940s.
- **Gemstones:** Bezel-set old European cut diamonds. The largest diamond in the middle measures approx. 4.2 millimeters in diameter, which is approximately 0.36 carat, VS1 clarity and F to G color. Other two diamonds measure approx. 3.8 millimeters in diameter, which is 0.22 carat each. They are VS1 to VS2 clarity and G to H color. Other diamonds in the pin have rose cut or old European cut. . . . We believe them to be VS1 to SI1 clarity and G to I color, milgrain, approximately 2.80 carat total carat weight.
- **Metal:** Tests like 18K White Gold but it's not marked.
- **Size or Length:** Pin is 2.5 inches long and 1.5 inches wide.
- **Condition:** Very good to excellent with only minor wear consistent with age. See pictures for more details!
- **Stamping or Factory Markings:** Not applicable.
- **Total Weight of Piece:** 16.4 grams.

This system works best for Hess Fine Art because each piece of inventory is unique, and it must be fully described. This business is not like an eBay CD store that has 10,000 copies of Beyonce's newest album. Hess doesn't need to maintain a database of auction ads that can be reused over and over again. His auctions are truly one-shot deals: Buy it now because another one might not come along—ever.

powerpointer

In addition to offering buyers a complete description of your item, also include a quick bulleted recap highlighting the most important features.

In his auction listings, Hess tells customers everything that is known about an item. His headlines boast of an item's authenticity, age, or provenance. The item description tells the rest of the story. On a ring, for example, he'll include such details as the size of the stone, its color, and the ring size. On antique pieces, he'll note the authenticity and age, and provide any historical details about the item.

For example, a recent listing for a pair of Victorian shoe buckles included eight paragraphs of history and details. Hess's bidders are treated like they're buying in an antiques store run by a very knowledgeable dealer rather than bidding online.

"The buckles are gorgeously designed in a geometric style with a succession of circles, perhaps symbolizing eternity or completeness," read the auction listing for the shoe clips. "Circles have been used for centuries for symbolic use in Roman and Greek times; many Romanesque buildings use a similar style. In early American folklore and such, the use of circles for hexes was abundant. The buckle features three overlapping circles. The circles are made of strung marcasite. Marcasite is a shiny, metallic semiprecious stone that is produced from iron pyrite."

The fact that Hess is a historian is evident in his detailed and educational descriptions. Of the shoe buckles, he further wrote:

> Shoe buckles, mainly seen in excess during the 1700s, became a symbol or aristocratic status, although almost all social classes had worn them. . . . After the French Revolution, the new Socialist government was lacking funding and money; many shoe buckles were donated to the cause. In fact, shoe buckles today wouldn't help fund a government, but so serious were the owners about the decoration and social status that many buckles were completely and ornately decorated with jewels. . . . It is even noted that George Washington fell prey to the lure of ornate shoe buckles. He wore a pair of rhinestone-studded shoe buckles at his inauguration.

Just like shopping malls, eBay is busiest on the weekends when people are off work and have free time to shop. To take advantage of the increased traffic, Hess Fine Art arranges for most of its auctions to end on Saturday or Sunday. This timing has many benefits. The company reaches a bigger pool of shoppers on the weekends, meaning there's a greater chance an item will sell. Second, products fetch higher prices because more people are competing against each other and driving up the bids. Third, Hess is able to have a fairly set shipping schedule. Because most items are bought and paid for over the weekend, employees usually spend Monday and Tuesday fulfilling the orders and shipping the items to the winning bidders.

powerpointer

Consider timing auctions to end on a Saturday or Sunday. That's when eBay has the most shoppers, and therefore when you're likely to get the highest price. It also allows you to complete sales over the weekend, and ship them out first thing Monday morning.

Shipping is an area most eBayers struggle with, because it's impossible to completely automate. People still have to pull and pack the orders. But Hess's wife, Katrina, figured out a way to streamline the process for their company.

"I'm an antique nut. Her forte is organizational skills," Hess says of his spouse.

The Hess Fine Art shipping department works like a factory assembly line. Once an auction ends and the winning bidder pays, an employee from customer service finds the product and ensures it is the same item that was described in the auction listing.

That person passes the item along to the company's watchmakers, who inspect all goods just before they are shipped. The watchmakers return the inspected items to the shipping department. There, employees carefully drape them in bubble wrap, which hangs from rolls on the wall. They pack each order with a reference copy of the auction listing and an itemized invoice. Then, the order is double boxed and labeled with a UPS tracking number. At 4:30 P.M., a brown-suited UPS driver arrives to pick up that day's orders.

It may seem odd that a man who's selling such personal items—cherished jewelry and antiques that will become family heirlooms—does so without meeting most of his customers. But that's what business is like these days for Hess Fine Art. In fact, online auction sales now account for about 70 percent of Hess's overall revenues. Sales in the company's retail showroom, at road shows, and to wholesale customers make up the difference.

Clearly, eBay drives this business and has changed how Hess Fine Art operates in many ways. For one thing, those road shows that were Hess's bread and butter when he first started his business are now as rare as an 18-karat white gold Rolex Tudor watch. Hess attends just a few antiques shows a year and tailors his buying to what will sell best on eBay.

Diamonds—loose, set in engagement rings, or clustered in pendants—are many a jeweler's best friend. You'll see more of them for sale on eBay than at Tiffany & Co. But surf auctions by Hess Fine Art, and you'll find very few diamonds for sale. Hess has found that they simply don't sell as well online as other equally valuable items, like watches and brooches.

On the flip side, eBay has opened a new market for things like sorority and fraternity pins that Hess used to sell for scrap whenever he got them as part of an estate. Before, he struggled to find customers for such items. It truly was like searching for the proverbial needle in a haystack. But on eBay, which has more than 114 million registered users, it's much easier for Hess to find a buyer for an antique Sigma Chi pin or another obscure item.

powerpointer

Do testing to see which items in your area of expertise sell best on eBay. After all, not all goods move as well as others online. Then, focus the majority of your time and energy on buying and selling those items with the greatest level of demand.

There are a lot of things that we sell on eBay that we could never sell before," he observes.

Hess's expertise is in watches and antique jewelry. That once limited what he could sell because he didn't know how to accurately and fairly price items outside of his expertise. But with eBay, the auction marketplace sets the price.

On most auctions, Hess begins bidding at a penny or 99 cents and lets demand drive the price. He began doing that years ago after watching how frenzied the bidding would get on some items and how quickly the price would rise.

"A long time ago, eBay used to have a place where you could see how many bids an item had," he says. Those with furious bidding were declared to be "hot." Once an item had the hot designation, the price rose even higher. The fact that other people were interested in those items helped stoke bidding, Hess discovered. "It's the same mob mentality that works at a country auction," he says.

So, Hess decided to start his auctions low to fuel interest and earn him the best possible price. "That's when I started throwing things on eBay at no reserve, at a penny," says Hess, who sets reserves on only about 1 percent of his auctions. Everything else sells for what the market bears.

powerpointer

Instead of setting a minimum reserve, begin bids at a low level—1 cent or 99 cents—and let demand drive the price higher. This is a proven strategy that is especially effective for lower-priced items that are likely to sell for at least your out-of-pocket cost.

"The item will reach what it's supposed to sell for," he says. "Twenty percent of the time, you get more then you ever thought you would. I've always called eBay the great equalizer."

TITANIUM TALK

How you treat customers after a sale is often as important as how you treat them during the buying process. Hess Fine Art takes great care in inspecting items and preparing them for shipment to the buyer after an auction closes. Company president Jeff Hess talks about his company's delivery policies.

Q: I understand you're a real stickler when it comes to shipping. Tell me about that.

A: Everybody loves us for our fast shipping and our good packing. In our own little way, we are kind of like the Amazon.com of small-time antique dealers. When you buy from us, the item's in a sturdy box. It's double boxed. With us you get a computerized invoice telling what you bought, what you paid for it. We send a copy of the auction listing page. We send a full, itemized invoice.

We also have a deal with UPS. UPS contacts the buyer when an item has been shipped and tells them the approximate date it will arrive.

Nothing goes out uninsured, and with few exceptions nothing goes out by U.S. mail. We ship either UPS or FedEx.

Q: How big is your shipping department?

A: We have three full-time shippers and one quality control person who checks everything that goes out.

Q: How have your customers responded to your shipping practices?

A: One of the number one feedback comments we get is, "Nicely packed and quick delivery." One of the negative comments we get is, "Shipping charges are too high."

Q: That's interesting, especially since you disclose those charges in each item description. You inform bidders that you ship by UPS and FedEx, and that you charge $10.95 to $25.95 for domestic shipments, depending on the item's value. How do you think your shipping standards compare to other those of other eBay sellers?

A: When I buy on eBay—and we buy a lot on eBay—the typical package I get is a watch thrown in an envelope with no padding. Another thing, when I buy things online, there's no receipt. When I get it I have no idea what I paid for it. It's just a dirty old watch packed in a paper towel.

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profile

Inventory Solutions

Bob Buchanan and Greg Scheuer were facing certain unemployment in 2000. The audiovisual (AV) rental company where they both worked was relocating its central operations to the West Coast, and their department wasn't making the move. Buchanan and Scheuer were tasked with one final job of shutting down and clearing out a local warehouse.

In that old warehouse, Scheuer and Buchanan discovered a gold mine.

Theirs isn't some story from *Antiques Roadshow*. The two men didn't uncover a priceless artifact hidden in the clogged warehouse. They found exactly what they expected to find—30,000 square feet full of used audiovisual equipment that no one wanted anymore. Anyone else would have written it off as junk and decided to throw it away. Indeed, that's exactly what the pair's employer did. "Throw it away," he told them.

But Buchanan and Scheuer, blessed with the creativity and ingenuity of the soon-to-be-unemployed, decided there had to be a better fate than the Dumpster for all that used equipment—not to mention a better fate for themselves than the unemployment line. They sparked on the idea of auctioning off the gear on eBay. Yes, the equipment was used and too out-of-date to be leased to rental customers seeking the very newest technology. But most of the items were still in good working order. At one time they'd been top-of-the-line and very expensive. Surely, the two coworkers thought, someone would be willing to buy these products.

Buchanan and Scheuer convinced the principals of the AV rental company that there might be a market for these warehoused goods on eBay. And they were right. Today, the men's stopgap to unemployment has evolved into a multimillion-dollar business called Inventory Solutions, Inc. The two-man operation, which sells under the eBay user name "avforsale," has grown to include

15 employees. From a warehouse in Atlanta, Inventory Solutions runs about 300 eBay auctions a week, selling used, but still usable, audiovisual equipment that it obtains through a network of about 100 suppliers, including rental companies, corporations, and individuals. Sales now top $2 million annually, and are projected to reach $10 million in five years.

"Our customers on the supply side are full of older equipment and full of new equipment that they'd like to get rid of before it becomes worthless," Buchanan says. "What we're trying to do is help them with their life-cycle management and being more proactive in getting rid of equipment. We're trying to sell it while it's still worth a good penny."

Inventory Solutions' merchandise is pretty varied—microphones, mixers, amplifiers, digital recorders, lighting systems, overhead projectors, speakers, fog machines, road cases for shipping and transporting AV equipment, rolls of cables, projection screens, and the like. And everything is used. The goods are past their usefulness for the company's suppliers, though there's still a prime market for them among church music departments, home theater owners, and garage bands.

"Some of the equipment I'm selling may have been $20,000 new, but now I'm selling it for $1,000, and it works fine," Buchanan says. "It's just now there's this new super-high-speed digital out there, which costs $120,000, and for professional recording people that's what they want to use. But for a garage band, if they can get their hands on what was state-of-the-art five years ago for a fraction of the price, they're loving it."

Unlike many used equipment brokers, the company takes possession of all the equipment it sells. Inventory Solutions pays the up-front shipping costs to have items transported from its suppliers' warehouses to its own 15,000-square-foot warehouse in Atlanta. Inventory Solutions earns a 15 percent to 50 percent commission from every item it sells. Suppliers, who consign their goods to Inventory Solutions, receive payment in the month after their equipment sells on eBay. Inventory Solutions deducts any front-end shipping cost from a supplier's first commission check.

Most suppliers don't mind the fees, Buchanan insists, because the equipment he's selling for them isn't earning them any money. It's just eating up valuable warehouse space. "This is equipment that's written off their books anyway," he offers.

Once Inventory Solutions has a contract to auction off merchandise for a supplier, the goods have to be transported to its Atlanta headquarters. One employee manages all inbound inventory, keeping in constant communication with the supplier and the trucking company that will be delivering the goods.

When a new tractor trailer of equipment arrives at the warehouse dock, crews immediately began unloading and sorting it. Buchanan calls this triage because, just like nurses in an emergency room or medics on the battlefield, these frontline employees are making initial assessments about where the equipment should go and how it should be handled. They're sorting things, separating the junk from the salable merchandise, putting like things together, and pairing up components that may have been separated during packing and shipment.

"We might not know that a $10,000 audio mixing board had the power supply," Buchanan says. "Without the power supply, the thing's worth half as much." But the triage process helps eliminate such costly errors.

powerpointer

When taking delivery of items from an outside source, put them through a triage—where you separate the junk from salable merchandise and match up any parts that have been separated during shipment.

As items are sorted, they're tagged with a bar-coded sticker that includes an internal tracking number, as well as information about the original source and any stipulations a supplier may have set regarding the sale of its equipment.

Unpacking and sorting may take an entire day or two for a typical-sized shipment of several pallets, or as much as a week if the company receives an entire tractor-trailer load of audiovisual gear.

Once a shipment has been triaged and tagged, the items go to one of Inventory Solutions' two quality control agents. These employees assess each item's condition, determine whether it is missing any parts, and rate it on a six-point scale that was designed to help customers bid smarter:

1. Item is in new, perfect condition.
2. Item is used, but in very good condition.
3. Item is used, but in good condition.
4. Item is used, but in fair condition and may have problems that are noted elsewhere in the auction.
5. Item is broken and is not functional.
6. Item is untested, its functionality is unknown, and it's being sold as is.

powerpointer

Rate used items on a predefined scale to let customers know exactly what condition an item is in before bidding.

The quality control staffers also photograph every item, multiple times if necessary, then forward these pictures and all paperwork to a coworker who creates and posts every auction using eBay's Seller's Assistant Pro software. (EBay users can download the software for free, but after the first month the site charges sellers $24.95 a month to use the auction management and automation tool.)

Rather than posting items continuously throughout the day, Inventory Solutions uploads all its auctions to eBay's web site daily at 4:30 P.M. That builds regularity into the process and makes it easier for the company to manage its auctions because they all start and end at the same time, Buchanan says. It's also a great way to keep people coming to the site daily, he said, because repeat customers know that every day at 4:30 P.M. Eastern time, there will be a new batch of auctions ending and beginning. "Our regular buyers know that 4:30 is when you want to go looking," he says. "Most people bid on things the last 10 seconds."

powerpointer

Consider posting new items at the same time on a regular basis. That brings regularity into the process and encourages repeat customers to keep checking back to see what's new.

Additionally, auctions are timed to end when they're convenient for bidders, no matter where they live. "For the East Coast, that's the end of the business day. For the West Coast, it's lunchtime," Buchanan says.

Buchanan and Scheuer considered scheduling their auctions to end on Sunday, which is eBay's heaviest traffic day. But because they sell from a business, with hours from 8 A.M. to 5 P.M. Monday through Friday, they decided it didn't make sense to have auctions end over the weekend. "Logistically, people would then be asking all their questions on Saturday, and we're not here on Saturday," Buchanan says.

powerpointer

Time auctions to end at a time that's convenient for buyers on both coasts, and that coincides with when you'll be around to answer any last-minute bidder questions.

Once auctions are posted, Inventory Solutions continues to follow a very regimented and organized formula to manage them.

It's at that point the real work begins, says Buchanan, who believes that succeeding on eBay truly is a function of customer service. How quickly you respond to a buyer's questions, how honestly you present your items for sale, and how quickly you fulfill auctions determines whether customers will buy from you again—and what they'll say about you in feedback ratings.

Every Inventory Solutions auction includes links to a frequently asked questions (FAQ) page on the company's web site and to the company's terms and conditions. This includes such things as warranty information, the return policy, the bulk ordering policy, and sales tax collection. The FAQ page anticipates and answers buyers' most common queries: "How much is shipping?" "Will I get a tracking number?" "What payment methods do you take?" "Do you allow purchases to be picked up?"

Even so, dozens of bidders write to Inventory Solutions each day asking these and other questions. Every query gets a response, even if the answer is evident in the auction listing.

"EBay is a great thing, but let me tell you, you're dealing with everybody in the world," Buchanan reveals. "Overall, people don't read. They don't pay attention. They want it now. It's a challenge day in and day out to keep people's tempers at bay and to answer questions in what they feel is a proper manner."

powerpointer

Set up a frequently asked questions (FAQ) page that can be linked to from every auction listing to address buyers' concerns about shipping, pricing, and your company policies.

At Inventory Solutions, all messages from eBay users go into a central mailbox where anyone in the company can review them. The company's two principals, Buchanan and Scheuer, along with two customer service employees, share responsibility for answering the e-mail messages. One customer service employee fields shipping questions, with the goal of answering these queries within an hour or two. Another worker tends to any e-mail messages that involve billing and payment issues. Meanwhile, the company's founders sift through and answer those customers who have technical questions about the equipment Inventory Solutions is auctioning.

"If I've got a couple of extra minutes, I might go through and answer some shipping questions, too," Buchanan adds. "It needs to be done."

Every day just after 4:30 P.M., Inventory Solutions, using automated functions within Seller's Assistant Pro, sends out a round of e-mail messages to all those successful bidders whose auctions have ended. Once payment is made, positive feedback is automatically posted to the buyer's account.

"One of my early-on philosophies with feedback was we will leave [positive] feedback if someone pays us. You can even be 60 days late and I'm not going to sweat it," Buchanan says. "A lot of people out there will not leave feedback until they receive feedback, which leaves you at a standoff. Somebody's got to do it first. Our philosophy is the buyer gets feedback for doing their task, which is buying. That's when they're supposed to get their feedback."

powerpointer

As long as buyers pay you, even if it takes several weeks, leave positive feedback for them. If they don't pay, leave negative feedback, regardless of the repercussions.

If a buyer reneges on the binding promise he or she made when bidding on an auction, Inventory Solutions will post a negative feedback message on that person's account. Ditto if the winning bidder fails to pay. "I'm going to leave you negative feedback, and I'm not going to worry about the repercussions of it," Buchanan insists. After feedback is posted, the auction is queued for shipping.

Inventory Solutions has one full-time picker and packer, though three other people work in the shipping department on a flextime basis, allowing the company to fulfill auctions within 72 hours of payment. That's a promise the company makes in every auction it posts on eBay. "We try to set those expectations for people," Buchanan notes.

Normal-sized items are shipped using UPS, but only to bidders within the United States or Canada. Nothing leaves the warehouse uninsured.

Oversized items are packed on pallets and delivered to customers by a freight carrier. Inventory Solutions uses the company FreightQuote to find the best delivery prices for bulky items. Inventory Solutions inputs specifics about the item—size, weight, and dimensions—as well as details about where it's going, and FreightQuote returns a listing of prices and transit times from a variety of well-known carriers.

Any item that is shipped by freight carrier is self-insured by Inventory Solutions. Unlike UPS, which has very affordable insurance rates, freight carriers often charge exorbitant amounts to transport used equipment, Buchanan says. So his company guarantees those shipments against damage or breakage on behalf of the customer.

To ensure that they don't have to issue refunds for damaged goods, Buchanan and Scheuer invested $5,000 in a foam packaging system. The device essentially fills a bag with foam and tightly encases the auction item, protecting it from jostling during shipment.

The foam system eliminates the need for bubble wrap, Buchanan says, and it's a good guard against breakage. In addition to the $5,000 initial investment, his company pays $3,000 to $4,000 every three months to buy chemicals to refill the machine.

From the beginning, Inventory Solutions' two leaders have been willing to invest cash if it can help them save time and money in the future. The foam packing system is just one example.

powerpointer

Invest wisely in products that will save you time and money in the future.

Inventory Solutions began as a two-man shop—Buchanan and Scheuer. They checked every piece of equipment in their former employer's warehouse, photographed it, described it, and made an auction using eBay's cumbersome online listing tool. It became quite clear very early that they'd need to buy some sort of auction management software if they were to ramp the business and become volume sellers, Buchanan says.

The business partners evaluated close to a dozen other third-party solutions, before settling on Seller's Assistant Pro (which later became one of eBay's own product offerings).

"The others all charged you a percentage or some sort of a per-auction fee," while Seller's Assistant Pro offered flat-rate pricing, Buchanan says. "I'd much rather [pay] that than pay someone two cents an auction, because that's going to add up."

Besides, most of the other software didn't fit Inventory Solutions' business, in which every item sold is unique. "Those [other software packages] work very well for people who sell closed-box items," Buchanan explains. "If you're selling DVD players, brand-new in the box, and you've got 100 of them sitting in a warehouse somewhere and all you've got to do is keep a constant run of those auctions going for the same exact thing, then that probably works very well. But every single thing we sell is different because it's all used. I could have 100 of the same DVD player here. Each one is different, even though it might be the same exact model. We have to treat it as an individual piece. We touch each one and we take a picture of each one individually."

Inventory Solutions used the money it would have spent on auction management software and invested heavily in in-house software, programmed specifically to manage the company's inventory, its billing, and its supplier commissions.

That software package also includes a powerful database that helps the company in the creation of its auctions. For every item that Inventory Solutions sells, the database has a description of "what a new one of these things should be," listing every standard component and feature, Buchanan says. When a used item comes in, it is compared against that catalog, and any discrepancies from new are noted by the company's quality control employees.

powerpointer

When taking inventory of a used item, also keep a database of what the product is like in brand-new condition. That way you can compare the quality and note any discrepancies for both yourself and potential bidders.

In auction listings, Inventory Solutions discloses what would come with a particular item if it were brand-new from the factory. The listing further explains what, if anything, is missing from the used model for sale.

That's a change from how Inventory Solutions conducted business in its infancy. Then, a listing might have advertised: "This kit includes . . ." without mentioning the missing pieces. Customers complained that the company was being misleading, so the listing policy was changed.

"We decided to say what everything should have, which helps educate customers, and then we tell them what stuff is missing," Buchanan explains. "It's just a better approach to information for our customers."

For Buchanan, the past four years have been filled with lessons about what works—and what doesn't work—when you're doing business on eBay. What follows is some of his well-deserved and hard-earned wisdom:

1. Don't worry so much about price and the per-item profit margins. Think in aggregate terms.

It's not unusual for sellers on eBay to experiment with pricing, starting some auctions low and others higher to determine which strategy generates the best returns. Time and again, these tests prove that a lower starting bid price attracts more bidder interest and pays off in a higher closing price. But Buchanan says many sellers, himself included, have difficulty accepting this as gospel.

"You go through these cycles as a seller on eBay," he says. "You put something up for 10 bucks and it sells for $500. You're hard-pressed to list it again for $10 because you know it's worth $500, so you start putting it for $250."

The next time, you might list that item for $350, inching incrementally higher each time. "You want to make sure you don't lose any money," Buchanan says. "But eventually, if you lose your foundation of putting it up for a cheap price, and instead list it for $499, it's not going to get bid on.

"We had gotten away from that pricing strategy for a while. We started putting things up for what we thought they would sell for." That strategy backfired.

A year ago, Inventory Solutions launched a promotion it calls "$9.99 Wednesday." The company lists about 60 items for sale every Wednesday, each with an opening bid of $9.99. The promotion drives traffic to the company's eBay auctions and it snags bidders. "People say, 'I can get a $500 piece of equipment for 10 bucks.' Then they go in and bid on it," Buchanan says.

2. Avoid Dutch auctions.

That's Buchanan's opinion, at least. Occasionally, Inventory Solutions gets multiple, identical low-priced items that it needs to unload for a supplier. The company has had a few Dutch auctions—in which multiple items are posted for sale in the same listing. Bidders specify the number of items they want and what they are willing to pay for each item. The items are divvied up among all the bidders, with the lowest successful bid determining what each person pays for their item.

These auctions are a nightmare to manage because of the complicated bidding rules, which few people understand, Buchanan says. He prefers to auction like items as part of wholesale lot to one winning bidder.

3. If something doesn't sell after four tries, dump it.

Four, then out the door, is the golden rule at Inventory Solutions. If an item fails to sell the first time it's posted on eBay, the company lowers the starting bid price by 25 percent. After the second strike, bidding starts at 50 percent off the original posted price. The third time, an item is auctioned off on $9.99 Wednesday. If it still fails to sell—a rare occurrence—the item goes onto a junk-heap pallet in the company's warehouse.

"Once a week a guy comes in and pays $1 for each item on the pallet," Buchanan says.

4. Forget the small stuff.

If you want to make money on eBay, you have to sell things that are worth something. That doesn't mean that every auction must close for thousands of dollars. Some eBayers do quite well selling moderately priced goods. Inventory Solutions sells a lot of overhead projectors for the tidy sum of $45.

But if you can't score an Alexander Hamilton for your item, forget about

auctioning it off. With eBay fees—and the time you have to spend creating and managing an auction—the profit margin is too narrow.

"One of the big mistakes a small company will make is they think that their time is free," Buchanan says. "If I know all an item's going to get is $10, I won't put it on eBay."

TITANIUM TALK

Bob Buchanan and Greg Scheuer leveraged their former employer's trash to start Inventory Solutions, a company that generates 80 percent of its revenues by selling used audiovisual equipment on eBay. They started by clearing out a warehouse and auctioning off things that their employer, an audiovisual company, was planning to throw away. Buchanan shares his thoughts on finding things to sell online.

Q: Where are you getting your inventory from?

A: The lion's share of my equipment comes from AV rental companies [and] staging, concert, sound, and lighting companies. What we're looking to do is diversify that into other markets. We're seeking similar equipment but from other suppliers, like people who call themselves systems integrators. They are people who put boardrooms in. They do installations in airports, schools, and churches.

These guys all go into these venues and do the installations, and they've got extra pieces and parts—including returns and demo equipment. In some cases, they're taking out equipment that is being replaced, and they don't do anything with it. They put it in the storeroom and it sits there.

Their business is not selling used stuff or open-case lots and things like that. That's not what they do. They do installations. So, with all best of intentions, they hold onto the gear, saying, "We'll be able to use that. It's brand-new." But they never do. The extra components they have don't do them any good and they sit on the shelf.

Q: Where does your company come in?

A: What we do is take all that equipment out of their hands. We try to make that part as painless as possible. We coordinate all the shipping. We even pay for all the shipping so there's no cash outlay for our supply customers. We back those costs out of their first commission check, but there's no [initial] cash outlay for them.

And this was dead equipment for them anyway. It was a sunk cost, so all they see is benefits.

Q: How soon after starting the business, using the inventory from your former employer's warehouse, did you start getting other clients that you could sell products for?

A: Probably within two months. It was pretty quick.

Q: Did you seek out these new suppliers, or did people in the audiovisual rental business learn that you were doing this on their own?

A: People found out about us. We've never really actively recruited suppliers except during a trade show we attended recently. We've never advertised at all, except for through our web site and our eBay auctions. We've never really gone out searching for new supply customers. People find us.

Q: Did you attend that trade show you mentioned specifically to target and make connections with those systems integrators?

A: It was actually an audiovisual products trade show, so we were talking to rental companies and staging companies and financing companies and corporate end users and systems integrators.

Q: How did that work out for you? Have you already gotten some leads from that show?

A: Well over a hundred leads, and in two weeks we've already converted probably a dozen of those into business.

At the show, we also had a lot of people coming up to us going, "Hey, you're those guys on eBay," which is kind of funny.

Q: You worked in the audiovisual industry previously and you have a technical understanding of the equipment you're selling. How helpful is that in your eBay business?

A: Oh, it's a tremendous help.

Q: How so?

A: Because we're dealing with some vintage equipment and technologies that have been around for 10, 15, 20 years. People can call us up looking for a "whatsit," and we know what the whatsit is. And we know what it goes with and what it works with and so forth.

If I didn't know the business, there would be a lot of sales that we wouldn't make because we wouldn't even know what the gear was when it came in.

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profile

1StopAuctions

Vaughn Smith has made his living buying and selling high-end photographic equipment for 28 years. He has owned camera stores and a mail-order camera business. He also worked on the trade-show circuit traveling the country selling his wares. In 1998, with e-commerce strongly taking hold and quickly revolutionizing how people bought consumer goods, Smith decided he needed to add another dimension to his business. He partnered with his friend David Pierce, a Web developer since 1996, to build an Internet site where Vaughn Smith Cameras could sell directly to its customers.

The web site, buoyed by Smith's reputation and his existing customer base, did well. But within a few years, the business partners realized they needed to open up another sales channel on eBay. Neither man had done much buying or selling on the auction site, but they couldn't ignore the buzz it was getting, particularly among buyers and sellers of camera equipment.

"I had never done any business on eBay at all, not even as a buyer," Pierce admits. "Then I saw the prices and the ease that eBay offered. Unfortunately, it was after we'd spent quite a bit of money building our own e-commerce site."

Pierce and Smith knew enough not to throw more good money after bad, and began migrating more and more merchandise to eBay's auction marketplace.

"To me, eBay is what the Internet should be all about from a merchant standpoint," says Pierce. "We switched over into selling everything on eBay. Photo is one of the top 10 categories on eBay. It's a perfect [venue for selling] used, high-end cameras. We're talking about professional equipment that's $15,000 new."

As the pair's sales on eBay grew, other business associates started asking Smith and Pierce to sell for them on eBay. A used car dealer wanted assistance moving some of his inventory. A watch dealer, who often buys inventory at closeout, sought help unloading some Seiko watches. Requests soon started pouring in from other individuals and collectors seeking help with selling on eBay.

By 2003, Pierce and Smith realized they had stumbled onto a tremendous

business opportunity. They opened 1StopAuctions, which at the time was a single-unit eBay drop-off store. But their dreams were much bigger.

Having followed news of AuctionDrop, the Titanium PowerSeller that pioneered the drop-off store industry, the business partners knew it would be too costly to open 1StopAuctions franchises around the country. "The problem is it requires a lot of work, facilities, and employees to do it correctly," Pierce explains. "Randy Adams from AuctionDrop [profiled elsewhere in this book] saw that. That's the reason he partnered up with The UPS Store. He was actually quoted in the *Wall Street Journal* saying they did the numbers every which way and it just doesn't work" to build stores.

In late 2004, 1StopAuctions signed its own partnership agreement with Sunshine Pack & Ship, a Florida-based company with mailing centers and freight delivery offices in Florida, Georgia, Indiana, Michigan, Missouri, Kansas, Kentucky, and South Carolina. Individuals can bring in any item worth $100 or more to one of Sunshine's stores for 1StopAuctions to sell on eBay. Pierce and Smith aren't aiming to make their revenues selling solely for individuals, as AuctionDrop and its competitors do. Instead, they're exploiting Sunshine Pack & Ship's customer relationships to capture consignment business connections from corporations.

"I feel pretty good letting I Sold It, AuctionDrop, and all those other [drop-off] stores go after the consumer market, while I go after businesses," Pierce says.

Sunshine Pack & Ship has two types of locations—pack-and-ship stores in busy retail centers and what it calls logistics centers in industrial parks. Those logistics centers employ salespeople who travel around to local companies trying to win their shipping and freight business. Those salespeople are now also pitching 1StopAuctions' expertise, offering their customers a turnkey solution for getting rid of excess inventory.

powerpointer

Look for ways to partner with other businesses that can give your company a nationwide (or even global) presence, without the need for you to build out your own infrastructure.

"There's a perfect opportunity during those sales calls for the salespeople to say, 'By the way, do you have any excess inventory, slow-moving inventory, old business equipment you're not using, or customer trade-ins?' " Pierce says.

There's money to be made in consumer consignments—"We probably do easily $20,000 a month with walk-in stuff"—at the single 1StopAuctions store in

Sarasota, Pierce says. But business consignments provide the most sustainable source of revenue.

"You want to build long-term customers," he offers. "The problem with consumers is they may be collectors, but after you've sold all their stuff, they don't have anything left." Businesses, however, are constantly churning through inventory, making them a steady, stable supply of consignments.

Through its Vaughn Smith Cameras business, its Sarasota drop-off store, and consumer and business consignments at the Sunshine Pack & Ship locations, 1StopAuctions was projected to sell $3 million to $4 million worth of goods on eBay during the first year of the partnership.

"It's a perfect fit," Pierce says. "They've already got their shipping department. They're already profitable in a freestanding location. This is just a great profit center to add to that business."

Pierce's philosophy in developing the partnership between 1StopAuctions and Sunshine Pack & Ship has been to allow each business to handle those tasks that each is expert in.

When businesses or individuals consign merchandise to Sunshine, its employees evaluate the merchandise and estimate its value—expertise they've gained through years of insuring shipments. (The company will sell on eBay only things that are worth at least $100; otherwise, Pierce says, there is not enough profit margin to be made for either the consigner or his company.)

Sunshine's employees have been trained to consult eBay's completed auctions when grading customers' valuables. If there is no information about the item in eBay's 30-day-old database of auctions, Sunshine's employees may call 1StopAuctions for help in deciding whether to accept an item for consignment. In these cases, Pierce, Smith, and their employees use research services by Andale and HammerTap to search deeper and further back into eBay's database of completed auctions.

powerpointer

Use research services, such as those by Andale and HammerTap, to get information and eBay sales history statistics for items you might not be familiar with. This will help you determine how much your products are really worth.

Once an item has been accepted for consignment, Sunshine employees photograph it using a camera kit that includes a Nikon camera and an electronic flash machine. Then, they send digital pictures, along with a completed, computerized

form with details about the item, to 1StopAuctions. There, Pierce and other listers write the auction ads. Technicians crop the photographs and manipulate the raw images to improve the quality. When an item sells, the Sunshine Pack & Ship store where it was consigned takes control of the auction again and ships the high bidder his or her winnings.

"That's one of the most time-consuming parts of the process, but they are trained in it," Pierce says of Sunshine's franchisees and employees.

Pierce's professional background is as varied as the things he sells on eBay. He has owned a daily newspaper, a real-estate development company, and a venture capital brokerage firm. Now he dreams of becoming a novelist—sort of a cross between Tom Clancy and James Redfield, the author of *The Celestine Prophecy*.

Perhaps it is because he's a writer that Pierce takes such time and care creating his auction ads. He uses Andale software to schedule his auctions and manage invoicing and shipping. But he believes in writing compelling auction titles and item descriptions.

"The actual listing process takes about a half-hour," said Pierce, who believes that time spent crafting a good description and making an auction visually appealing results in a higher sale price. "We do our own research. That's one reason it takes us a little longer to do our auctions."

1StopAuctions spends about $2 on listing fees for each of its auctions. That's a much higher total than most top sellers spend. But Pierce believes that doing things to make his auctions stand out, such as paying to use bold text in the headline and a gallery image—nets him a better price in the end. Depending on the product, he may also pay eBay's $19.95 fee to feature an item and drive more traffic to the auction. 1StopAuctions pays those fees and does not pass the cost on to the consigner.

powerpointer

It can sometimes pay to spend more on listing extras, such as bold text in the headline and gallery images, to make your auctions stand out.

"We try to maximize the return for our customers," he insists.

Certain very hot and in-demand items should always be listed as featured auctions, Pierce contends. A Nikon D100 camera is one such example. The cameras are in short supply and always attract a flurry of bidding activity. Featuring a Nikon D100, he says, greatly improves the final price. "You'd be a fool not to run a featured auction on that."

powerpointer

Hot items, which are in huge demand and short supply, should always be listed as featured auctions. Such placement should greatly improve your final price.

Like most eBay PowerSellers, Pierce doesn't like to use reserve prices on his auctions because he believes they scare away bidders. When he's unsure of an item's value, however, he may set a reserve to test the market. Such was the case with a "Cup of Sorrows," an enameled cup made to commemorate the coronation of Russian Czar Nicholas II and his wife, Czarina Alexandra. The souvenirs, bearing the insignia of the royal couple, were distributed for free to Russian people at a military parade ground outside of Moscow. Sadly, in the scramble to get the cups, 1,400 people were trampled and killed.

The collector who brought the item into Pierce's store thought it was worth $700, but he wasn't really sure. Pierce listed the cup for auction on eBay, detailing its history, and set a reserve price of $700. When the auction ended, the top bidder had put in an offer of $647, $53 less than the reserve.

Since the final bid was so close to the collector's estimate, the owner decided to sell the cup for $647. So, Pierce extended a "Second Chance Offer" to the top bidder. If an item doesn't reach its reserve or if the seller has multiple quantities of an item, eBay allows its users to extend bidders a second chance. By doing so, sellers don't incur any additional listing fees. And eBay still gets its cut—a final value fee based on the selling price.

"I love the Second Chance Offer feature," Pierce says. "I think that's one of the best things eBay has ever done. You can kind of test the waters with something you're not really sure of the price on. We sell a lot of things with Second Chance Offers when we do a reserve price auction."

powerpointer

Use the Second Chance Offer feature to avoid having to relist an item, and to test the waters when you're not sure how much an item is really worth.

Pierce says extending a Second Chance Offer is preferable to relisting the same item over and over again with a reserve because of the expense. "You've got to turn your inventory over. That's one of the things I've learned," he shares. "You've got to turn your inventory because eBay is an expensive place to sell items. EBay

and PayPal fees add up quickly. If you launch a reserve auction three times, you've eaten up about 15 percent to 20 percent of your margin already."

Just as he's learned that blowing your profit margin on reserve auction fees doesn't make sense, Pierce has discovered other dead-end strategies on eBay through experience.

Though it once did so, the company refuses to ship any products through the U.S. Postal Service. Instead, 1StopAuctions contracts with UPS to pick up packages from its headquarters in Sarasota. And at the pack-and-ship stores, it uses the various delivery companies that Sunshine has contracts with.

At an earlier point in 1StopAuctions' history, the company did ship through the Postal Service. But Pierce got fed up with having to "pay somebody to stand in line," and he didn't like the slow response time for getting insurance refunds when cameras were lost or damaged in transit.

"Right now," he complains, "the post office owes me like $5,000 in lost camera equipment. It takes like a year to get your check. We've never lost anything with UPS, but it's just standard practice to lose stuff with the post office."

Without dealing with the post office, it's tough to make foreign sales. UPS, FedEx, DHL, and other delivery companies typically charge exorbitant rates to transport packages to foreign companies. Some of 1StopAuctions' foreign customers pay for shipping using their existing corporate accounts with the overnight shippers. But most bidders aren't willing to pay those rates, making the post office a seller's only viable option for foreign delivery.

powerpointer

If you want to ship items to foreign countries, your best option is often to use the U.S. Postal Service. The other shipping companies generally charge too much to make the sale viable.

"Shipping becomes part of the price," Pierce explains. "Every eBayer that knows what they're doing says, 'That's worth $200 to me, so I'll bid $160 because it's going to cost me $40 to get it shipped.' It's not an afterthought. If I go online and buy something at Banana Republic, I don't think about the shipping. On eBay, it's an integral factor in the price."

Though Pierce hates to do it, 1StopAuctions does occasionally ship products through the post office so the company can capitalize on international demand for photographic equipment.

"The only thing we ship globally is camera equipment, and that's because camera equipment is worth more overseas than it is here," he says. But on consigned goods, Pierce insists he makes absolutely no shipments—foreign or otherwise—through the post office.

powerpointer

Remember, on eBay, customers add shipping to the total price of the purchase. If shipping makes up a huge percentage of the purchase price, buyers are less likely to give you the sale.

"Right now, we're not even shipping to Canada," he says. "The more times I've got to pay somebody to go to the post office or the more times I've got to pay somebody to fill out customs forms, the more money I'm not making."

Pierce is clearly conflicted about doing business internationally. On the one hand, he likes the high prices that foreign bidders are willing to pay. Conversely, he hates spending the money and the time it takes to ship goods internationally. Additionally, there's a higher likelihood of fraud on foreign orders.

"There are certain places we won't ship to under any circumstances—Africa, South America, Malaysia, and Indonesia because there's so much fraud there," he reveals. "There are ways to spot fraud. If somebody buys $1,000 worth of camera equipment using a credit card [and] wants it overnighted to Malaysia, and the shipping charges are $600, we know it's a fraud. The problem is they're using stolen credit cards. Over the years, you learn that."

powerpointer

Look for signs of fraud, especially when shipping internationally. For instance, if a buyer is willing to spend $1,000 to have a product worth half that amount shipped to a foreign country, chances are he's using a stolen credit card to pay for the purchase.

Bidder fraud doesn't always involve stolen credit cards. Pierce has had some foreign bidders request his assistance in defrauding their governments.

"Everybody is trying to get out of paying customs. That is something we run into with the higher-end stuff," Pierce says. "If you're shipping a $700 camera or an $800 used computer, [the buyer can] get hit with a lot of duty."

Some foreign bidders will request that 1StopAuctions send the package uninsured so that customs agents won't know how much the item inside the box is really worth. Other times they'll ask Pierce to lie about the value, which he won't do.

"You just run into that issue so many times . . . it's not worth it," he says.

Pierce has also learned to be cautious of bidders with feedback scores of zero. A low feedback score could signal that someone is new to eBay or that the bidder is a scammer trying to obtain merchandise through fraud.

To build up their feedback scores it's not uncommon for scam artists to buy from big companies that automatically leave positive feedback when an auction closes. These disingenuous eBay users will then bid on other auctions and use stolen credit cards to pay for their winners, says Pierce, who checks bidders' feedback scores, especially on big-ticket auctions.

powerpointer

Check the feedback scores of your bidders. Be cautious regarding those with low or no scores. Instead of turning them down altogether, you might take precautions, such as calling to confirm that they have provided you with a working phone number.

Unlike some sellers, 1StopAuctions doesn't ban people with zero or low feedback scores from bidding on its auctions. But the company does confirm that they are legitimate customers before shipping out any merchandise.

"There's nothing worse than waking up and finding an expensive item has been bid on by someone with zero feedback," Pierce says.

When this happens, he'll e-mail the bidder and ask for a telephone number. If the person responds, Pierce will call to confirm that the person has indeed provided a working phone number. If he receives no answer to his e-mail within a reasonable time period, he will cancel the user's bid.

Pierce figures he owes his fellow eBay members this courtesy, instead of just canceling all zero-feedback bids.

"I had zero feedback on my own personal account at one time," he says. "It always makes me mad when [people say they] won't sell to anybody that has less than 5 feedback. That's not what eBay is all about."

TITANIUM TALK

David Pierce, who dreams of becoming a novelist someday, is now busy running his eBay consignment business, 1StopAuctions. This company sells goods for consumers and businesses. With nearly a decade of experience as an Internet marketer, Pierce knows plenty of tricks for getting your product seen online. Here, he shares his tips for maximizing your eBay exposure with effective auction titles.

Q: When you were a web site designer, you learned some tricks for how to market your business on search engines. Now you use those same strategies to ensure your auctions are seen by bidders using eBay's internal search engine. Is there any advice you can impart?

A: It's definitely an art. There's no science to it. But it's pretty simple. Act like you're a three-year-old—or even a 10-year-old—searching on eBay. People get too focused on making their titles and descriptions too flowery. You just want to make sure that when you're writing the title, anybody can look that item up with two or three words.

Q: I see a lot of titles where people try to cram in a lot of abbreviations—NWT [new with tags] or NIB [new in box]—and it's impossible to tell what the item is. Or they'll do cutesy things like "L@@K" and then commence with the headline.

A: I see those titles, too, and I don't understand them myself.

Q: If you had a Nikon CoolPix camera for sale, what would you put in the title?

A: Nikon CoolPix and the model number. It's pretty simple.

Q: Is it important to put descriptors like "new" or "like new" in the title?

A: If an item is in mint condition, it's important, I think, to say that in the title. Or if it's new. As a camera retailer, we buy closeouts and stuff like that and sell them as new.

But for the most part, you want to get people interested in looking at the auction, and if you can get them interested, they'll [open your auction ad] and figure out what the condition is.

For mint condition stuff, we try to get "mint" in the title and "no reserve"—either the abbreviation "NR" or we spell it out.

Q: Any other tips for writing an effective auction headline?

A: People search by brand. That's the bottom line on eBay.

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profile

Pugster

Like many of us, Vanessa Lee found herself with a garage full of stuff that she didn't need anymore. Even so, she couldn't bear to throw the clutter away. On the advice of her husband, she turned to eBay.

In Lee's case, it was the flotsam from her business that was filling the garage. Lee made her living wholesaling costume jewelry to retailers. She cultivated her customers through overseas trade shows and the way good salespeople always do—by knocking on doors and showing samples of her wares to shopkeepers.

After years in the business, those samples were beginning to overtake Lee's home. There were tons of samples that Lee didn't need anymore, and they had turned into a disorganized mess—boxes and boxes of jewelry piled everywhere.

In Lee's own words, she began to feel just a little bit "greedy," hoping for a way to earn more money to supplement an already steady income.

So, in 2002, she began listing her sample jewelry for sale on eBay in earnest. She bought auction management software from ChannelAdvisor—it was the cheapest program and the best tool for small eBay sellers that she could find at the time—to enable her to manage a high-volume business. Even with that program, Lee worked like crazy, spending most of her time tending to her auctions and working her day job. Although she hired a helper to assist with shipping orders out, Lee was busy nonstop between eBay and her wholesale accounts. Sometimes she'd get only four hours of sleep a night.

Then, something very fortunate happened, though it didn't seem so at the time. Lee's husband, Wen Chang, was laid off from his job. Rather than sending out a batch of resumes to find employment with someone else, Chang joined his wife's eBay venture and brought along a former coworker, Suzanne Hallam.

When they volunteered to help Lee out, neither Chang nor Hallam realistically believed the online jewelry business would turn into their next full-time careers. Their intention was to help the overburdened, sleep-deprived Lee—who by that point was listing 300 new auctions a day—get her orders processed.

"When Vanessa started at first, we came to her rescue to get things out the door," Hallam says.

That rescue effort has since morphed into a behemoth enterprise. The trio's company, Pugster, sells trendy jewelry—modular charms, stretch bracelets, belly-button rings, and pendants—on seven Internet sites, including eBay, Amazon.com, and its own, Pugster.com.

Pugster's success story proves that it's possible to become a top PowerSeller on eBay even while selling low-cost items. Pugster sells some higher-end merchandise, including $44.99 Disney branded watches and $39 18-karat gold charms. But the majority of the company's auctions start at 99 cents, and most of its products end up selling for $1 to $7. Pugster is eBay's leading seller of Italian charms, charm bracelets, and other costume jewelry.

This Titanium PowerSeller's secret is selling in quantity. Pugster may very well be the master of volume selling on eBay, continually running 20,000 simultaneous auctions.

powerpointer

If selling low-priced merchandise, you must rely on volume—running dozens, or even hundreds, of auctions at a time.

Since its founding 2002, the company has closed about 3 million eBay auctions, though its founders won't reveal revenue or earnings data for the privately held company. In two years, Pugster, selling under the eBay user ID "pugster888," has amassed more than 611,000 feedbacks from more than 82,000 different eBay customers. And 99.7 percent of those feedback comments are positive.

ChannelAdvisor Corporation, the Durham, North Carolina, company that designs auction management software and stores for eBay sellers, has ranked Pugster as the fastest-growing seller on eBay based on its ever-increasing feedback score.

Novato Technology, which compiles monthly rankings of eBay sellers based on sales, feedback rating, and feedback growth, picked Pugster as its "Whale of the Month" because it kept gobbling up sales and feedback on the auction site. Pugster routinely tops Novato's Nortica Fast Growing 200, which ranks companies by how much their feedback increases every month on eBay. (Pugster generally collects 40,000 to 50,000 new feedback messages from customers every month, but it sells seven times as much merchandise.) Only 24 eBay sellers have collected more feedback than Pugster.

Wen Chang was the one who decided that Pugster should use volume, instead

of pricing, to drive its revenues and profits. His business partners, Hallam in particular, were reticent to take that market position. "I come from the old school," Hallam says. She wanted to price auctions higher, to ensure a comfortable profit margin on every sale. "My idea was you don't ever sell your product at the bottom price."

Chang, whom his business partners affectionately nicknamed "The Mogul" for his uncannily on-target business sensibilities, lobbied for the volume selling model. He eventually swayed his partners to his point of view that Pugster could maintain its profitability, even as more competitors entered the market, by keeping the pricing structure simple and selling thousands of every item in inventory.

In the two years since Lee began on eBay, Pugster's average selling price per item has dropped as competitors have flooded the market with copycat modular Italian charms. Yet Pugster's profit margin has remained steady because it has been able to buy products in bulk at discounts and then, using a highly automated and efficient process, sell and ship those items to customers.

Modular Italian charms, which can be hooked together to form bracelets, are Pugster's mainstay merchandise. Each link has a spring-loaded clasp that latches with other links to form a bracelet.

The name "Italian charm" is a misnomer. Many of the links sold by Pugster and its competitors are manufactured offshore in China and other Asian nations. (Pugster is both a manufacturer and retailer of the charms; the company has a "family connection" to an off-shore manufacturing plant, Hallam said.)

But the bracelets were first manufactured by Italian jewelers and gained popularity there. Now you'll see moms, middle schoolers, and celebrities like Paris Hilton, Paula Abdul, Hillary Duff, Carmen Electra, and Kelly Osbourne adorning their wrists with the personalized bracelets that cost anywhere from $17 to thousands, depending on the quality and rarity of the charms.

Like traditional charm bracelets, Italian charm bracelets are appealing because they can be personalized. The women and girls who wear them might buy 17 to 19 charms and link them together to make a single bracelet, which explains why there's a flood of companies, Pugster among them, selling the trendy jewelry.

Each charm is rectangular, nine millimeters in width, and made out of stainless steel or 18-karat gold. The charms are decorated with literally thousands of different designs. Some have images or phrases—"Angel," "All American," "Bad Girl," "Bling Bling," "100% Natural," "Sweet 16," "#1 Flirt," "#1 Teacher," "Boys Are Smelly," or "I Love Shoes"—laser-etched on the face. Others are decorated with enameled images of pumpkins, Mickey Mouse, Elvis, a Campbell's soup can, an American flag, a heart, or just about any other likeness imaginable. Additional styles have gemstones soldered on the face.

powerpointer

Offer personalized merchandise tailored to a specific audience whenever possible.

Many eBay customers, particularly in Pugster's marketplace, are searching for bargains, Lee says. Pugster can deliver that on many of its items, given that many of its charms cost less than vending-machine Coke. (Pugster, by the way, sells a variety of Coca-Cola–themed charms.)

Still, Pugster faces a real conundrum on eBay because the site is so flooded with its product. A search on eBay for "Italian charms" yields more than 108,000 results. For a seller like Pugster, this means that supply may overshadow demand, especially for more expensive merchandise. As a result, Pugster doesn't list its high-end charms, such as those crafted of gold or featuring licensed images from Disney, Peanuts, or Coca-Cola, in regular auctions with a 99-cent starting bid. Instead, these items are sold through a fixed-priced auction. Customers don't bid; they just click the Buy It Now button. Pugster may charge anywhere from $3.99 to $41 for these But It Now charms, depending on the quality.

powerpointer

Assuming demand is strong, high-end merchandise may be sold more efficiently on eBay using the Buy It Now option.

"If we listed [those items] as auctions, we would be losing money that way," Lee maintains.

Though few items in its inventory garner big bids, Pugster can count on big orders from customers who purchase multiple charms to design their own bracelets. The company's feedback illustrates this phenomenon. Pugster has a feedback score of more than 91,000 (99.7 percent positive), yet it has received seven times as many positive feedback messages from customers. This means the company is clearly capturing a huge amount of repeat business from eBay bidders. (EBay calculates a member's feedback score using only messages posted by unique users. That means if a customer wins 10 of your auctions and posts 10 separate feedback messages, you'll gain only one more point in your feedback score.)

Pugster provides incentives for bidders to buy multiple items. The company charges a $2 flat-rate fee to ship the first charm and 50 cents for each additional charm. Customers who buy $15 worth of Pugster charms in a single day on eBay

get free shipping and handling. To encourage customers to buy at least $15 in merchandise, Pugster automatically sends a combined invoice to all winning bidders at 10 P.M. Pacific time. Customers who haven't reached the $15 threshold are reminded that they can add to their orders by selecting from the Buy It Now merchandise in Pugster's eBay store. This helps the company increase its revenues while only incrementally increasing its costs.

powerpointer

Give bidders incentives to become repeat customers—or even to buy additional items you have for sale on the same day.

On its web site, the company also gives preferred customers a 5 percent discount on every purchase. To qualify, customers must make one $15 purchase from the company. After that total is reached, the discount begins accruing.

Having suffered through too many busy, sleepless nights when Pugster was young, the founders have found ways to automate their auctioneering tasks. They've turned their shipping department into an assembly line that packages and ships every order on the same day payment is received.

Pugster's inventory comprises about 5,000 jewelry items, mainly charms. Unlike many eBay sellers, Pugster believes in having a large number of stock-keeping units (SKUs) or unique items. Generally, the company keeps a quantity of about 1,000 pieces of every item in its inventory.

powerpointer

If selling lower-priced goods, maintain a large and well-labeled inventory.

About 100 examples of every SKU are warehoused on pegboards in the shipping department. When orders come in, employees go from pegboard to pegboard grabbing the charms they'll need for that customer. As long as a winning bidder pays by 5 P.M. Pacific time, the order will ship out the same day. If Pugster fails on that guarantee, the company refunds the shipping charge to any customer who requests it. That doesn't happen often, Hallam says.

Pugster ships its package through the U.S. Postal Service. Five employees—a quarter of the company's total workforce—staff the warehouse and ship out orders six days a week.

Though Pugster has a tremendous amount of inventory, the company does take time to personalize its auction advertisements. When the company gets a new charm in stock, an employee photographs that item and writes a description of it.

There's stock information in every Pugster auction ad. For example, in the "Item Detail" section of each Pugster auction, bidders are told what materials the charms are crafted from and what type of paint and metal plating were used to decorate the jewelry. They also are informed that the decorative image is soldered, not glued, onto the modular link.

But the auction ad writers show some creativity in their descriptions of the charms. Consider these descriptions:

For a butterfly charm—"A beautiful butterfly is shown on this charm with bright pink and purple colors. Blue circles fill the wings to give it more personality."

For a beach sandal charm—"Walk in style with this stylish sandal bracelet charm."

For a charm laser-etched with the phrase "Domestic Goddess"—"If you rule your household, then this cute laser-printed domestic goddess charm is the one for you."

For a puppy dog charm—"This adorable yellow-faced dog waits anxiously for someone to throw his bone for him."

For a heart-adorned charm—"Hearts rain down upon you with this lovely charm shown in four magnificent colors ranging from red to blue. The special person in your life would love this charm."

Pugster is able to put these creative touches on each of its ads because nearly every other auction task is automated.

powerpointer

Automate many functions of the auction listing, but use creativity when writing item descriptions.

"We're extremely technology driven," Hallam says. "If we had to do all of this manually, we wouldn't have been able to grow to this size."

In fact, Hallam was forced to do a lot of this work manually in the company's early days. Some nights, she'd sit at the computer for hours, clicking the mouse button over and over again, scheduling auction after auction, until her arm got numb from the repetition.

Eventually, the partners came to an important crossroads in the history of their company. Pugster either had to stop getting bigger or had to improve its technology to fit its size.

As Pugster's sales volume grew, the company, led by Chang, who is a software engineer, eventually built its own solution for inventory management and auction listings. It automatically tracks the items Pugster has to sell, schedules auctions based on that inventory, sends payment reminders to winning bidders, and creates packaging slips for orders once bidders have paid.

Of course, there are some things that can't be automated. Shipping is one of them, and dealing with money orders is another. The company prefers payment by PayPal because it enables customers to pay and get their items quicker. It's also less of a headache for Pugster.

Many customers refuse to use the online payment service, preferring to send in money orders and sometimes cash for their purchases. (Pugster doesn't accept personal checks.) Usually, Pugster has no problem matching the money order to the appropriate auction number because most bidders include their invoice or the eBay item number with the money order payment.

But some customers just send the cash or the money order with no accompanying documents. In such cases, there's no way that Pugster, which closes 150,000 eBay auctions a month, can figure out which auctions correlate with those payments.

The company sets aside those money orders. Generally, Lee says, customers will call or e-mail the company if they haven't received their merchandise. When Pugster gets these "Where's my stuff?" queries, its customer service agents check the stack of unidentified money orders. Most of the time, she says, they can then figure out which payment belongs with which auctions.

Things have changed significantly for Pugster and for the eBay jewelry market since Lee started selling from her garage in 2002.

"Pugster came into the market virtually unchallenged," Hallam says. Now, Pugster has about 150 online competitors, three or four of which are big enough to pose a real threat to sales. "But as far as I know, nobody posts the number of auctions nor do they have the number of feedbacks that we have. We're still the market leader, no matter what."

Indeed, Pugster finds itself in a unique position in its marketplace. Type the phrase "Italian charms" into any Web search engine, and you'll get multiple hits for Pugster. One reason is that the company aggressively advertises its products through pay-per-click ads on such sites as BizRate and Shopping.com. But it also helps that the company has thousand of items for sale on eBay, Amazon, and five other web sites. That kind of presence greatly improves the probability that someone shopping for Italian charms will buy them from Pugster and not its competitors.

powerpointer

Make your presence known on multiple sites to increase your standing in the search engines. Also, selectively advertise using pay-per-click banner ads on web sites.

"We want our product to stand out in front of the customers," Hallam explains.

Pugster could probably sell even more charms on eBay that it does now. But eBay's policies limit the number of items Pugster—or any other user—can auction at any given time. The company prohibits what it calls "multi-listing." This means that a single seller cannot post more than 10 identical items for auction at the same time, even under different user IDs. The reasoning is that the eBay marketplace could be damaged if too many identical items are posted for sale. "Although there are reasons to list identical items at the same time, enabling a single seller to list too many identical items at one time hurts the buying experience," the company states.

Pugster has argued against this policy, pointing out that in its primary sales category, "Modular, Italian Charms, and Charm Bracelets," there are dozens of identical items for auction by hundreds of sellers. In highly competitive categories, Hallam says, eBay has no way to effectively control the supply of goods on its site. So, the rule against multiple listing doesn't make sense in these categories, she says.

But eBay does police auctions and will end those that it believes are violating the multi-listing ban. It's happened to Pugster before. One Friday night, eBay began systematically ending Pugster's auctions. The auction site's watchdogs had been scanning the titles of thousands of Pugster auctions and determined that the company had more than 10 flag charms for sale. That was true, Hallam says, but the charms weren't identical: Some featured a U.S. flag, while others depicted flags from other countries and states.

powerpointer

Be aware of eBay's "multi-listing" ban, which prohibits you from posting more than 10 identical items for sale at the same time.

EBay's decision infuriated Hallam and her business partners. As she negotiated with eBay to allow the auctions to continue, Hallam envisioned some name-

less competitor sitting at his desk, drinking a beer, and collecting the sales that should have gone to Pugster.

This Friday night disaster was a wake-up call to Pugster. The company has taken steps to ensure that its auctions are never again pulled for multi-listing violations. Chang and the company's other software engineers tweaked Pugster's auction management software to ensure that no more than 10 identical items are auctioned at any given time. Its item titles are now more specific as well. For example, each title indicates what is depicted on the charm: the Italian flag, the Irish flag, a Bush-Cheney election flag, a Dale Earnhardt Jr. NASCAR racing flag, or myriad other choices.

Because the company is such a big-time seller on eBay, Pugster has also been able to negotiate advance notification from eBay if any of its auctions are in jeopardy of being ended because of listing abuses. Now, Hallam says, someone from eBay will call if web site managers think there's a problem with any Pugster auctions. That allows Pugster to plead its case—and fix any problems—without endangering 20,000 live auctions.

As the Web's leading dealer of modular charms, Pugster enjoys the kind of muscle that a big retailer like Wal-Mart has. Pugster buys in volume, so it can get the best prices from suppliers. The company has even partnered with manufacturers to produce and market exclusive charms. To commemorate the 2004 Rose Bowl and the Tournament of Roses parade, Pugster created and sold nine different charms. These charms featured the logos of the University of Southern California and the University of Michigan—two football teams vying for the championship—as well as other Rose Bowl–themed images.

Many times, competitors on eBay will try to capture some of Pugster's business by undercutting its prices. These merchants might start their auctions at 50 cents, instead of 99 cents. When this happens, Hallam and Chang will exchange a conspiratorial look and vow, "Let's crush them."

This crushing of the competition is not really as vindictive as it seems. Pugster's goal isn't necessarily to put upstart competitors out of business, although the company will do whatever is required to protect its own market dominance. Often that means ramping up its own auctions and flooding eBay with more charms, something that Pugster can do very easily because its systems are automated and because it warehouses so many charms. While competitors can get overwhelmed by the extra work that more eBay sales create, Pugster can easily increase its auctions volume because most of its systems are automated. Even its shipping processes are regimented to run quickly and smoothly.

"We have more flexibility," Hallam boasts. "We can ship a product in an hour if we want to."

TITANIUM TALK

Pugster has one of the 25 highest-feedback scores on eBay, and every month its customers post another 40,000 messages of praise for the company. Suzanne Hallam, who was the company's director of marketing at the time of our interview, shared her thoughts on managing feedback.

Q: Do you do anything now to solicit feedback?

A: We haven't solicited it recently, but we do give our customers feedback. We also send our normal customer e-mails, which say things like, "We've left feedback for you, please leave it for us." At one point, when we were trying to increase our feedback numbers, we did actively solicit feedback.

Q: What happened?

A: It resulted in a huge customer service mess.

Q: How so?

A: Because when you send out a note and say, "Hey, we noticed you didn't give us feedback. Could you give us some?" a bunch of people say, "I did give you feedback." Sometimes we had people saying, "By the way, my charm broke." So, you really open up a new can of worms when you solicit feedback.

Q: So you then had to respond to all those extra e-mail messages, as well?

A: Exactly. At our size now, it's a little easier just to let feedback accrue the way it does.

Q: As I understand it, when customers pay for their orders, you post positive feedback for them and hope they reciprocate?

A: Right.

Q: What percentage of your customers leave feedback?

A: I'd guess about 30 percent typically leave feedback.

Q: At your size, is generating feedback as important as it once was?

A: Not really. We're at 99.7 percent positive with 621,000 total feedbacks, and a score of 91,000.

Q: I guess at some point you get so big that your reputation begins to speak for itself.

A: Well, that, and as long as you continue to provide good customer service, you don't have much to worry about. You're always going to get some negatives no matter what you do.

For instance, I'm looking at a neutral comment right now. It says, "Good quality, but small." That's the size of our charms. Why are you giving us a neutral for that?

Some of this negative or neutral feedback is from people who don't know this item. It's not our fault that they purchased something they don't know anything about.

Here's a negative: "It's not really white. It's silver colored." So they gave us a negative over that.

Q: Do you ever post negative feedback about your customers—say if they don't pay or if they give you negative feedback?

A: I don't think we do. There are a lot of things we don't worry about. Getting revenge for negative feedback doesn't work at this level.

Q: Do you track what customers are saying in those negative comments?

A: Well, we do take a look at them. We go in and make a reply as to why they're giving us negatives. We put a comment back to them, but we're not normally vindictive. We don't have time for all of that.

Q: Who handles replying to all your negative feedbacks?

A: We don't get many negatives, but when we do, we usually send out an e-mail to our customer service department and one of our reps just answers it. This month, we had 30 of them.

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profile

Rock Bottom Golf

Brothers Tom and Todd Rath have turned their version of the childhood lemonade stand into a multimillion-dollar business.

When Tom Rath was a poor high school kid, at night he'd sneak onto the golf course of the local country club. Wearing scuba gear, he'd dive into the course's ponds and lakes and rescue lost golf balls from water traps. Eventually, Rath recruited friends to help him with his midnight dives. He sold the "white pearls" they harvested from the lake to other golfers. The shady venture helped pay for six years of college for Rath. Or so goes the cheeky company history on Rock Bottom Golf's web site.

After graduation, Rath went legit. He started buying used and demonstration equipment from the very same country clubs whose lakes he had raided as a teenager. While still working as a consultant designing supply chain software for big companies like IBM, Rath moonlighted on the weekends, selling the used golf equipment at flea markets and at golf trade shows with his brother, Todd. They toured the Northeast, crisscrossing from Chicago to Louisville, Kentucky, and from Washington, D.C., to Boston, hitting some 14 trade shows a year.

The Rath brothers never made quite enough money at the flea markets and trade shows to turn their golf dealing into a full-time business, until they discovered eBay.

Five years ago, the brothers launched Rock Bottom Golf under the eBay user ID "rockbottomgolf," becoming one of the first sellers to specialize in sporting goods and golf equipment. "Right at the time we were coming on big, eBay was coming on big on golf, too," says Todd Rath, a former software consultant who is the chief operating officer and chief marketing officer for the family business. "I wouldn't say we were as deep in the golf industry as people think we were. I think we hit eBay and the golf market at the right time when there were mass amounts

of supply that [manufacturers] couldn't liquidate fast enough, and eBay was growing at the same time."

In its first year in business online, Rock Bottom Golf pulled in $3.2 million in revenues, with the vast majority, $2.8 million, generated through eBay auctions. In 2003, sales had more than doubled to $8.5 million, with the lion's share once again coming from eBay. In 2004, revenues hit a projected $15.2 million, with $11 million of that coming from eBay.

The brothers also sell under a second eBay user ID, "rockbottomcloseouts." Through that selling pseudonym, they auction off such items as Motocross helmets, in-line skates, football gloves, soccer cleats, swim towels, snowboarding boots, electric pet groomers, baseball batting gloves, and much more.

"Any deal I find in the world goes to rockbottomcloseouts if it's not golf related," Todd Rath says.

The company sells $25,000 to $50,000 in closeout merchandise every month and has more than 6,000 feedback ratings for the rockbottomcloseouts ID.

Competition has become fiercer since the Rath brothers first began selling on eBay. There are other Titanium-level PowerSellers battling Rock Bottom for customers in the golf category, and that's slowly changing the way the Raths do business. Though eBay is still their company's biggest moneymaker, accounting for about three-quarters of their annual revenue, the Raths are preparing for the day when that may not be the case.

They've invested in a sophisticated, professionally designed e-commerce web site at www.rockbottomgolf.com, which uses Yahoo! stores technology as its selling platform. There, customers can buy Rock Bottom's golf gear for prices equal to those offered through the company's fixed-price Buy It Now auctions on eBay. To keep customers shopping on their own web site, the Raths offer free shipping and often give buyers a promotional code that they can enter at checkout to save $5 or $10 on a purchase.

"You can't do that on eBay," Todd Rath says.

powerpointer

Look for ways to expand your online business beyond eBay, both to create new marketing channels and to avoid having to pay listing and sales fees.

Like the now-defunct Pets.com, the web site has its own outspoken mascot who helps position RockBottomGolf.com as the place where average joes go to buy great golf gear at rock-bottom prices. The mascot, Scratch, is a golf club toting caveman with a bushy red beard and a bone through his nose. He's

Tom Rath's cartoon alter ego, and his sidekick Toad is Todd Rath's cartoon doppelganger.

When customers win a Rock Bottom Golf auction, they are given the chance to opt in to the company's mailing list. Those who sign up will receive an e-mail newsletter every two weeks featuring the latest bargains available through the company's web site. When customers buy from Rock Bottom Golf directly, the Rath brothers don't have to share their revenues with eBay, and that is becoming an increasingly popular proposition.

"EBay is a customer acquisition tool," says Todd Rath. "They hate when people say that, but that's what it is. It finances a lot of big deals for me, so I can turn around and make more profit on my own web site."

In two years, Todd Rath expects to have built enough traffic at his own web site, RockBottomGolf.com, to use that as the company's primary sales channel. "And I'll use eBay as my liquidation arm," he says.

powerpointer

Even after you've developed other sales channels, don't ever avoid eBay altogether. It will also be a great source for liquidating merchandise.

As the golf category has matured, Rock Bottom Golf's profits are constantly being squeezed by the competition. "In our world—the golf world on eBay—profitability is not very good," Todd Rath admits, though his company still does amazingly well on the auction site. "They don't have enough shoppers to meet all the supply that gets put out there."

Ironically, that same set of circumstances—an oversupply for the retail market—is what allowed the Raths to start their business in the first place.

"There's one thing you can always say in a free market such as the United States—there's competition. And competition creates surplus," Todd Rath says.

New golf clubs, each one supposedly better engineered than its predecessors, hit the market at an amazingly rapid rate. Today's hot driver won't have a shelf life much longer than a carton of milk. And that means that golf club pro shops, and the club manufacturers themselves, often get stuck with an oversupply of clubs that they can't market effectively. If they're going to pay $500 for a single club, pro shop customers want the latest and greatest model that promises to transform them from duffers to Tiger Woods–caliber players. They don't want to spend that kind of cash on last year's version.

"There are companies like Taylor Made coming out with new products every six months. They have products that become old in four months because they're

already talking up their new driver," Todd Rath says. "They want the newest stuff in the pro shop."

But these companies would lose money if they trashed the old merchandise. That's why Rock Bottom Golf has been able to strike direct deals with so many manufacturers.

"Whether they work with us or not, in their closed-door meetings they know that we're moving millions of dollars in merchandise every year," he says. "We serve a specific solution to their supply chain problems."

Rock Bottom Golf has 27,000 square feet of warehouse space in Norfolk, Virginia, filled with millions of dollars' worth of overstocked and just slightly out-of-date golf clubs, balls, bags, and on-course accessories. The brand names in those warehouses are a who's who of the golf industry: Callaway, Mizuno, Adams, Wilson, Taylor Made, Nike, Tommy Armour, Ogio, and Top-Flite are just a sampling.

Rath is careful to preserve those relationships he has with manufacturers. He won't reveal which companies he deals with directly and which products he gets through pro shop closeouts. When manufacturers do consent to sell their overstocks to Rock Bottom Golf, the Raths do everything they can to nurture that relationship.

They refuse to sell inline, or current, merchandise—the sorts of things you'd see on pro shop shelves today—through either their web site or in their eBay auctions. "We don't go and try to buy the brand-new driver," Todd Rath says. "We work with merchandise that's kind of outdated, a couple years old, a year old. We don't try to hurt their brand at all. The guys on eBay that sell inline merchandise all the time are tarnishing the brand. If you look at our web site or our eBay store, you can't find a 2004 or 2005 driver. They're all 6 to 24 months old."

He also won't stock any goods by Titleist, even though it's a much sought-after and high-profile brand. The company, which sponsors pro golfers Ernie Els, Davis Love III, and Mark O'Meara, tightly controls which outlets can sell its products, and the Raths don't want to tread into that sticky legal territory. (They do, however, list Titleist on the front page of their web site, so Internet shoppers who use Google to search for "Titleist" products find Rock Bottom Golf, as well.)

powerpointer

Even if you don't sell some of the premier brands in your merchandising category, include their names on the front page of your web site so that people browsing for these brands find you when they use Google, Yahoo!, and other search engines.

But plenty of other high-profile brands are for sale at Rock Bottom Golf, both through the company's web site and on eBay. On the Internet, Todd Rath says, brand-name merchandise is the only way to go.

"The Internet is all about being able to search on a brand name," he maintains. "Not many people are going to buy off the Internet unless they know the brand. That's the model we kind of stick to."

When Rock Bottom receives off-brand merchandise from one of its suppliers, the company hauls that to trade shows and sells it there where "you can add that personal touch" of salesmanship, Todd Rath explains.

powerpointer

In the final analysis, people are most comfortable buying products online from brands they are familiar with. This means you'll likely have a much harder time selling off-brand merchandise.

"The most important thing on eBay is your title [auction headline]," he says. "You've got to be able to put a title in there with a brand name that somebody's actually going to search on because there's so much supply out there. If they can't search for it, they're not going to find it."

Consider, for example, this recent Rock Bottom Golf listing: "New Callaway Golf Big Bertha ERC #3 Wood Head Cover." Rath included the manufacturer's name—Callaway Golf—as well as the brand name of the club—Big Bertha—that the head cover is made to fit. Had he just named the auction "Head Cover for Wood Driver," he wouldn't have attracted bidders searching for the Callaway or Big Bertha names.

Golf clubs and bags and golf balls are Rock Bottom's mainstays. Clothing doesn't sell very well. "Golfers are picky enough, and they're going to be real picky on clothing," Todd Rath says. But they will bid on accessories, including golf club head covers, gloves, and shoes.

Everything in Rock Bottom's inventory goes up for sale on eBay through a one-penny auction. But because the company gets its stock in volume, by the pallet load and truckload, those same items may also be sold in the company's eBay store or through the fixed-price Buy It Now option. The company pays to feature other items so they appear prominently on search pages and on eBay's golf category page.

powerpointer

Create a sense of urgency and scarcity with your products. Let buyers know this is the *last* one available so they should *act now*.

Rock Bottom Golf quite successfully hypes its niche as a closeout seller and plays off the notion of scarcity to spike demand for its products. "Our products

change daily," Scratch proclaims on the company's web site. "In many cases, the item you see is the LAST ONE available. Once these deals are gone, you will never see them again at these ROCK BOTTOM prices, so ACT NOW." In eBay auctions, the Scratch character entreats, "Why wait? Buy It Now in our eBay store!"

Unlike many sellers, Rock Bottom Golf uses its penny auctions to drive business to its higher-priced Buy It Now and eBay store deals. "What we try to do is take those people from penny auctions and try to get them to buy fixed-price [items] so they can get it faster," Todd Rath says.

As Christmas approaches, for example, the company will run more Buy It Now auctions, knowing that bidders will skip the traditional auctions and pay more for an item to ensure it arrives in time for the holidays. "They're going to hit 'Buy It Now' to get that gift at their house," Todd Rath explains.

powerpointer

Make an effort to move customers from lower-priced auctions to Buy It Now listings by giving them the sense that they might not otherwise be able to obtain this sought-after item.

As savvy as they seem now, with five years of eBay selling behind them and millions in revenues, the Raths have made mistakes in building Rock Bottom Golf. The biggest might have been their short-lived decision to stop accepting PayPal payments.

PayPal was founded in 1998 to give people who were trading on eBay a way to quickly and easily pay for their merchandise without sharing sensitive financial information with unknown sellers. It also allowed bidders to avoid the delay of sending a check or money order through the mail. Anyone with an e-mail address can send or receive money through PayPal, using a checking account, credit card, or debit card.

When consumers make PayPal payments, they share their financial information with PayPal through its secure web site, but not with the seller directly. The money is transferred automatically to the seller's PayPal account. Sellers can have their payments transferred to a banking account, or they can leave the cash in their PayPal account and withdraw it using a debit card.

PayPal was acquired by eBay in October 2002 and is now the auction site's preferred online payment method. Many bidders and sellers favor it as well.

But for 20 days, Rock Bottom Golf stopped accepting PayPal payments for its eBay auctions. The company was having difficulty making PayPal work with its

auction management software, and the Raths had also grown frustrated with the fees eBay was charging. (Technically, it's free to send and receive cash using eBay for personal accounts. Business accounts, which can also receive credit card payments, are charged a fee that's based on a percentage of the total sale.) The Raths decided PayPal was more of a headache than a convenience, and stopped accepting bidders' money through that channel.

"That's probably the dumbest move I ever made," Todd Rath says with the benefit of 20–20 hindsight.

powerpointer

Use the services of PayPal, despite the service charges, to allow your customers to quickly and easily send you money for their purchases.

Sales dropped precipitously. "I was running for cover. I thought we were going to go under," he says. He is not exaggerating. Today, 65 to 70 percent of Rock Bottom Golf's auction customers pay through PayPal. The rest send in money orders or enter their credit card information directly into Rock Bottom's checkout system, which is fueled by ChannelAdvisor's auction management software.

Rock Bottom Golf has been using ChannelAdvisor software only since the fall of 2004. The company had been a longtime customer of Marketworks, another auction management company. Todd Rath says that Rock Bottom Golf simply outgrew Marketworks' software and that ChannelAdvisor provided the better solution for the company.

"Their software wasn't growing as fast as I was, so I was having some problems, and I dealt with it for eight months," he says. "I needed to [contract with] a company that could support our transactional model."

ChannelAdvisor sells three distinct versions of its auction management software: Pro for small businesses and individual sellers; Merchant for midsize businesses and top-tier PowerSellers; and Enterprise for large businesses and Fortune 500 companies. That appealed to Todd Rath, a former software developer, who was searching for a program tailor-made for his high-volume business.

"Marketworks [has businesses of all sizes] on the same platform," he complains. "It hampers their customer service, and it hampers their development."

It seems surreal that two brothers whose business started out so small—at flea markets, for goodness' sake—could be taking in so much money now. But getting there was no easy task.

Tom and Todd Rath built their online venture while still traversing the East Coast on the trade show circuit. Every Thursday, the brothers would empty out the New York barn where they stored their entire inventory and drive to their next town with a golf show. They'd spend the weekend selling golf clubs from the back of a 32-foot trailer. All the money they made went into a rented cash register.

During the week, the Raths worked 20-hour days, scrimping on sleep to get new eBay auctions ready and to ship out everything that had already been sold online. On Sunday nights, as they made their way home to New York State from yet another trade show, one of the brothers drove and the other created shipping labels in the back of the truck.

It has been more than two years since the Raths have spent their weekdays or weekends that way.

Their company is now headquartered in a series of warehouses in Norfolk, Virginia, instead of out of an old barn. They have 16 full-time employees who help with office management, financial matters, inventory procurement, auction creation, and shipping. It's not unusual for Rock Bottom Golf to ship out thousands of orders every week, and the company does it with finger-snap quickness. Customers who pay for their purchases by 2 P.M. on weekdays will get a UPS tracking number within four hours.

As much as Rock Bottom Golf has evolved, Todd Rath says he wouldn't trade those early weekends on the road. "That's where you gain all your knowledge and really dedicate yourself to what you're doing and why you're doing it," he insists.

TITANIUM TALK

International sales account for about 13 percent of Rock Bottom Golf's annual sales. Because they have fewer outlets from which to buy in their own countries, foreign buyers tend to bid higher and pay more for their golf equipment than their American counterparts, says Todd Rath, Rock Bottom Golf's cofounder and chief operating officer. Rath's company is aggressively chasing international business. Here, Rath talks about the challenges of selling overseas.

Q: Who are your customers?

A: I think we hit every part of the market. I would say our core market is kind of blue-collar America. But we do a ton of international business. We probably do $1.5 million to $2 million [in sales annually] overseas. Our biggest countries are Canada, Australia, Germany, and the United Kingdom.

Q: What are the challenges with selling overseas?

A: Fraud. I block [bidders from some] countries from checking out because there's so much fraud. I get certain shipping rates to certain countries that are awesome, but countries in Africa and India are tough to ship to, so we don't.

Q: Rampant fraud in places like Africa or India affects shipping rates there. How do you know what places are hot spots for fraud?

A: I have this report that I run [using payment-processing software from] Authorize.Net where I can see what countries are getting reported in the most with fraud.

Q: How do you prepare the customs forms for international shipments?

A: The software we use, UPS WorldShip, creates invoices that go on the outside of the box. So, when it rolls into customs, they pull these forms out and inspect the goods.

Q: Do you ever run into any problems with customs?

A: I just had a case over in Germany where a guy bought 40 pairs of Nike golf shoes. They stopped the box at customs because there are certain laws over there that protect brands. This guy doesn't have an account with Nike and customs thought he was buying goods to resell. In this case, he wasn't buying goods to resell. He was buying goods to have as gifts for his family.

Q: How did that situation work out? Was he able to claim the shoes?

A: I've done all I can on this side of the fence. He's just got to go and plead with the legal system there in Germany and show proof that he's not trying to resell. He tried to tell me that I should have warned him of these laws. And I said, "Buddy, I can't employ 30 lawyers a month to monitor the world."

Q: Were you surprised that the shoes were stopped by customs?

A: I deal with Nike, Adidas, and [the bigger name manufacturers]. They're very protective of their brands in other countries. Believe it or not, the United States is a dumping ground for products. There are no laws that really protect brands over here. But we took a trip to Germany, and it's amazing what golf equipment sells for over there.

Q: It's more expensive over there?

A: Oh, yeah.

Q: So, I guess this really makes your auctions attractive to overseas buyers? And that also provides you a big incentive to sell internationally?

A: Yeah, overseas buyers usually are much easier to work with, and they pay a lot more.

Q: Are you pleased with how you're handling international orders right now, or are there things you would do differently?

A: We try to list on eBay.com and eBay Australia and eBay Canada and eBay UK. Right now, we're trying to get one of our employees to start listing more auctions on foreign eBay sites. Those bidders still come to eBay.com, but when we have the resources to push those foreign listings out and manage them, we do it. We get so busy in the United States at times that we kind of have to pull back on the other international auctions.

Q: Is there anything else you're doing to increase and improve your international business?

A: We're in the midst of a technology project right now where even international orders will hit the warehouse floor pretty much completely automated. On domestic auctions, my systems are already pretty automated. The guys walk in in the morning, hit a couple of buttons on an internal web site, and integrated packing slips and shipping labels spit out of a printer on the shop floor.

Q: That doesn't happen with international orders yet?

A: They're pretty automated now. Orders come into that same internal web site, but the guys have to go into the UPS WorldShip software and make the customs invoice and kind of massage everything a bit. It takes them just a minute to do it, but there's still some hand touching that goes on. Anything domestic that ships out of here by UPS doesn't get touched by anybody, except for packing.

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profile

SCGaynor Auctions

Scott Gaynor's obsession with baseball cards started in 1978 when he was five years old. By the time he was eight, he was a full-fledged collector. That's all he ever intended to be—a collector, not a dealer. But a series of chance opportunities changed the course of his professional life.

In 1996, Gaynor was a new college graduate, living in Baltimore and looking for a job in his major—law enforcement. Before he could find a "real" job, the owner of a local sports memorabilia store hired Gaynor to help him auction off some of his inventory by advertising the lots in trade magazines and collecting journals.

Around the same time, Gaynor started hearing rumblings about an upstart web site called eBay. Every now and then, someone would post a reference to eBay on one of the online bulletin boards and newsgroups he was a member of. "I remember seeing people posting, 'I'm selling an item on eBay,' and they'd tell you how to go to eBay and look for it," Gaynor recalls. One particular posting still sticks in his mind: "Fake Roseville Pottery on eBay."

Intrigued by all the buying and selling that was apparently happening on eBay, Gaynor visited the site and zeroed in on those collectibles that had captured his attention for decades—sports memorabilia. What Gaynor found wouldn't have impressed him, even when he was five, unsophisticated, and just starting out in the hobby. Literally, he could have bought more baseball cards in a convenience store pack. "It seemed like it was mostly pottery and things like that at first," he remembers. "I want to say there were probably five things in the sports section."

For a year, Gaynor ignored eBay and focused his efforts on helping his employer sell through more traditional, proven auctions. But the buzz about eBay kept getting louder, and other collectors told Gaynor the quality and

quantity of sports memorabilia on eBay was getting better. Gaynor visited the site again and was surprised to see some 500 items for sale in the sports category. He was even more surprised by some of the prices—as much as $400 in some cases.

That was all the motivation Gaynor needed. He began taking unwanted items from his own collection—"junky items that I had, stuff that was just sitting around that you couldn't do anything with"—and posting them for sale on eBay. It didn't take long for the rookie eBay seller to hit a home run with the help of a rookie professional baseball player.

Gaynor listed a Vladimir Guerrero baseball card that he hadn't been able to sell in Baltimore on eBay. Guerrero, who now plays for the Anaheim Angels, won the 2004 Most Valuable Player award for the American League. But at the time, Guerrero was a rookie outfielder for the Montreal Expos, and there was no local demand for baseball cards bearing his likeness.

The card sold on eBay for $41. "I just couldn't believe it," Gaynor says. "Nobody around here would buy it, but you throw this thing up on eBay and somebody will actually pay decent money for it."

That's when Gaynor started swinging for the fences. He began selling off more of the dregs of his collection on eBay, listing as many as 60 items a week. "It was stuff that was sitting around. It was basically taking up space, and I was converting it to cash. That was unbelievable," he says. "It wasn't a lot. It was probably $300, $400, or $500 a week. But these things were garbage. It's like *Rumpelstiltskin*. You're taking straw and turning it into gold. It was unbelievable."

It took only a few months for Gaynor to run through his personal inventory of junk. By that time, he had been offered a full-time job at the National Sports Gallery in Washington, D.C. The curator, an old friend, made the offer in September 1997. Gaynor was set to begin work in early 1998, when the museum opened.

In the meantime, though, Gaynor decided to support himself on income earned on eBay. He was single and just out of school, without many expenses, so he didn't need much money.

Every morning, Gaynor scoured the antiques stores in the Fells Point neighborhood of Baltimore, buying old maps, photographs, and billheads—letterhead paperwork used for bills beginning in the eighteenth century. He spent his afternoons creating eBay auctions for those collectibles he had purchased. "You could buy stuff at a reasonable price. You could buy stuff that wasn't popular locally, put it up on eBay, and sell it someplace else in the United States," he says. "I realized I could buy almost anything in a popular collecting area and make money on it."

powerpointer

You can sell about any kind of specialty item, assuming it is popular with collectors.

He let his friends in on the secret, too, bragging about how he was converting merchandise into money on the web site. His friends, particularly the collectors, were as psyched about eBay's potential as Gaynor was, and many asked if he would post their items online as well.

Those consignment requests provided Gaynor the impetus to go into business for himself—and skip the job at the National Sports Gallery altogether. Eventually, Gaynor's girlfriend (who's now his wife) turned down a promotion and quit her corporate job with the retailer Pier 1 Imports to help him run his eBay business. A month after they married, they moved to the Cape Cod region of Massachusetts and officially set up shop in their basement.

Their company, SCGaynor Auctions, specializes in selling sports memorabilia—cards, photographs, game programs, autographs, game jerseys, and the like. SCGaynor Auctions is one of the top sellers in the category. Sales have grown rapidly since that first Vladimir Guerrero card sold, reaching $500,000 annually in 2000.

By 2001, Gaynor had doubled his sales. In another year, he was on the verge of reaching Titanium PowerSeller status. In 2003, the company sold $2 million in merchandise on eBay. By 2004, revenues had reached $2.5 million, all on eBay and with a staff of just three people. SCGaynor's average selling price is $200. Gaynor collects a 20 percent commission on every item he sells on eBay, about the same amount a sports dealer would charge to sell in a store.

Gaynor made his biggest eBay sale in 1998, when two zealous collectors bid against one another to win a high school yearbook that had been signed by famed Boston Red Sox slugger Ted Williams. The item's owner, a dealer of sports books, had been trying to sell the yearbook in the Amazon.com marketplace. Finding no one willing to pay the $500 he was asking, he consigned the book to Gaynor.

"In reality, it should have been worth $700 or $1,000," Gaynor says. "But two hard-core Ted Williams collectors just decided they wanted to have it and put in really high bids on it."

The item sold for $10,000.

Despite these phenomenal results, SCGaynor Auctions, whose eBay user ID is "scgaynor," has faced quite a few challenges during its first seven years in business. These include a highly publicized run-in with Major League Baseball, location challenges, and an unexpected dip in business in late 2003.

Gaynor once made headlines worldwide with some controversial items he had for sale on eBay. In June 2003, he posted for sale on eBay 377 player contracts that an employee bought at a sports memorabilia show. Some of the agreements included the players' Social Security numbers and other personal information. Gaynor obscured those, per eBay's rules, in his auction ads, but the winning bidders would have gained access to the numbers.

"It's not uncommon to see things like that," Gaynor told ESPN reporter Darren Povell at the time. "Once they come outdated, they often hit the trash can and someone picks them up realizing they have some value. It's not illegal to sell a contract like this. Social Security numbers are not classified information."

After at least one player and Major League Baseball complained, Gaynor pulled the auctions. He even agreed to return the documents to Major League Baseball.

"That was fun," Gaynor comments now about the experience.

When they were still dating, Gaynor and his wife fell in love with Cape Cod during a visit with relatives. When they married and began house hunting, they immediately thought of the area. Because theirs was a virtual business, drawing customers from around the nation instead of locally, they decided they could set up their base of operations anywhere. So, they moved to from Baltimore to Massachusetts.

While Cape Cod is a beautiful place to live, Gaynor admits it's not the best place to locate a sports memorabilia business.

For one thing, there's no four-year college nearby and the Cape has many affluent retirees, so Gaynor has trouble finding employees. With the cost of living and prevailing wages higher than in many regions, Gaynor struggles to locate workers for his eBay business. When he does, he must pay them more than the $10 an hour that is typical in the industry.

powerpointer

While a virtual business can be based anywhere, if you expect to grow and need employees, location is important. Make sure you are located in an area with easy access to both supplies and workers—and where prevailing wages aren't so high that you won't be able to afford help.

Additionally, there's a dearth of collectors, and therefore consigners, in his immediate area. Most big-time sports collectors who own the rare, high-ticket

items Gaynor deals in live in New York, New Jersey, and Connecticut, he says. His consignment market is "pretty much the stretch of Interstate 95 from Baltimore to Boston."

To keep a steady stock of merchandise, Gaynor and an employee travel often, calling on consigners weekly to appraise their items and to pick up additional goods. Gaynor also goes to sports memorabilia shows, including a once-a-year national event, to shop for inventory and consigners. "I hate going to those things," he admits. "You stand around and—I shouldn't say you don't get anything done—but to do this all week and give up a whole weekend to deal with some of these people, it's not enjoyable."

The business can also be unpredictable, given to fits and starts of popularity, depending on the time of year and collectors' fortunes. It's not a steady commodity-driven business, like selling CDs or DVDs or cell phones.

For about a year or so, beginning in 2003, sales were just "kind of coasting along" at SCGaynor Auctions. The company's revenues weren't dropping, but they weren't growing, either. Things finally turned around in March 2004. Gaynor isn't quite sure why his business stalled temporarily because he didn't change his strategies or practices during that time.

Unlike many Titanium PowerSellers, Gaynor takes a pretty low-key approach to finding collectibles to sell. He advertises on only two web sites, www.autographs101.com and www.oldcardboard.com. Mostly, he waits for business to come to him, relying on positive referrals from past consigners to bring him more merchandise.

That's how Gaynor always operates, in lulls and in boom times.

"People weren't really in a selling mood," Gaynor says of the most recent downturn in business. "I don't know what it was. People that were good consigners just decided they didn't want to sell very much. It could have been the economy. Any collectibles market sort of has its ups and downs, and I think it was just down there for a while. That's a problem with this business. It's not even something you can predict.

powerpointer

Realize there will be lulls and booms in your business. Plan accordingly and hang in there during challenging times.

"All of a sudden, one day you're looking around and saying, 'I don't really have that much to sell.' And then all of a sudden, you're thinking, 'I can't even fit all the stuff that I have in this building anymore.' "

Through experience, Gaynor has learned to accept those lulls as just the normal course of affairs in the collectibles industry. In fact, he has learned quite a bit more about how this business works during his years of selling on eBay.

For instance, Mondays are horrible days to sell on eBay and always have been, Gaynor claims. Maybe because people are busy on the job, traffic is lower at the start of the workweek, so Monday is not a good day "to list things on eBay," he says.

powerpointer

Monday is often the worst day of the week to list items for sale on eBay. Thursday, Saturday, and Sunday are generally the best days.

Gaynor has studied traffic patterns on eBay closely, and schedules his auctions accordingly to catch the largest number of bidders. SCGaynor auctions go live every Thursday, Saturday, and Sunday. Auctions for baseball cards normally are posted on Thursday, while autographs and other memorabilia are reserved for the weekend.

Gaynor used to begin—and end—all of his auctions at three o'clock in the afternoon on weekdays, knowing that few people had Internet connections at home and were instead surfing the Web from work. Gaynor wanted his auctions to end during those workday hours, when his customers would be in front of a computer and able to bid.

But wider Internet availability and the proliferation of auction sniping services, which will post last-minute bids for eBay users, have changed how and when people surf on eBay, he shares.

"People don't have to be sitting in front of the computer when the auction ends anymore," he says. "That's a big deal."

During his tenure on eBay, Gaynor has gone through a string of auction management programs, including AuctionWatch (now Vendio) and ChannelAdvisor. For now, he's settled on SpareDollar. Gaynor doesn't think the program is any better than the others he's used; in fact, he has a lot of complaints about SpareDollar's performance. But, in Gaynor's mind, the SpareDollar solution has one key advantage over the others: It's cheaper. While other auction management companies charge a per-transaction fee, Gaynor pays a flat monthly rate to use SpareDollar's tool.

powerpointer

To cut down on costs, consider using an auction management tool like SpareDollar, which doesn't charge a per-transaction fee.

"They kill guys like us," Gaynor says of the programs that take a cut of every sale. "They started charging a percentage of sales, which is something we really can't afford to pay because we're working on commission. We'd be paying them hundreds or thousands of dollars for something we could get someone else to do for $30 a month."

Gaynor is constantly searching for ways to cut his selling expenses and improve his profit margin on eBay. One way the company saves money is by insuring every item it ships out. But SCGaynor Auctions doesn't buy a separate policy on every item from the U.S. Postal Service as so many eBay sellers do.

Instead, the company has purchased coverage through a collectibles insurance agency. Every buyer must pay a mandatory insurance fee, ranging from $1.50 for an item valued at less than $50 to upwards of $5.50 for more expensive items. That money helps pay the company's annual insurance premium. If an item is lost or damaged in transit, SCGaynor Auctions refunds the buyer's money and makes a claim with its insurance agency to recoup the loss.

powerpointer

For valuable items, insure your products by taking out a blanket insurance policy. Then charge users a small "insurance fee" on each transaction to help fund the cost of this policy. You'll find the coverage is usually much better than insurance available from the various shipping companies.

This is a more cost-effective and efficient system, Gaynor says, than relying on the U.S. Postal Service, UPS, or FedEx for delivery insurance. "Most shipping companies are hard to collect from when you need to," he adds. "It takes a lot of time. There's a lot of paperwork."

Gaynor prices his auctions low so they'll sell high. All SCGaynor auctions begin at $9.99. Gaynor prices them that way to encourage more bids and increase his average selling price. Like many Titanium PowerSellers, he has a real aversion to reserve price auctions and uses them only when selling esoteric items.

"You've taken away a whole group of people who want to get the bargain [when you use a reserve]," he claims. "It's a psychological thing. They just realize that they're not going to get a bargain because if there's a reserve somebody probably wants all that it's worth.

"If you start something at $9.99—it could be a $1,000 item—you'll get the guy who will pay $50," he continues. But soon other, more serious, bidders will

emerge. "Now, all of a sudden, you've got an item with 30 or 35 bids on it, and it's up to $700. People realize this must be a good piece because there are a lot of people out there who want it. When you have a reserve auction, you take all that away."

Gaynor has other strategies for improving his average selling price. Occasionally, he will pay a professional sports authenticator to provide a letter attesting to the authenticity of an autographed item he's auctioning. These letters cost about $50, but they improve the closing bid on an auction.

powerpointer

On rare collectibles, buying a certificate of authenticity can greatly increase your ultimate sales price.

A Mickey Mantle–signed baseball with a certified letter of authenticity sells for $400, but without one the price drops to about $200. "Sometimes it just makes sense to get the letter," he says. "It's not so much that I'm asking for their opinion [on authenticity]. I'm just trying to get the letter to make it easier to sell."

Gaynor is his own in-house expert on baseball cards. Having collected them for nearly 30 years, he's pretty skilled in telling the real ones from fakes. If he has doubts about an item, he won't sell it on eBay. "That's going to affect your whole reputation," he insists.

Gaynor isn't as skilled at assessing the authenticity of autographs, so he pays an expert in Delaware a monthly fee to review all his auctions. If that expert has doubts about a signed item that is already up for sale, Gaynor cancels any bids and ends those auctions immediately.

This might happen once or twice a week, Gaynor says, but doesn't necessarily mean the item that is pulled from eBay is a fake or a malicious forgery. What's more common, he says, is to have what's called a "clubhouse signature" on a baseball. Sometimes, baseballs signed by 30 different players come on the market. These items are legitimate, Gaynor explains, but often the team's star player couldn't be bothered to autograph the baseball, so another player or a clubhouse attendant signs his name on the ball instead.

Because authentication can be such a chore, Gaynor doesn't sell autographs from popular modern sports stars whose signatures are often forged. Golfer Tiger Woods is a good example. There's a huge black market of fake Tiger Woods–autographed items. And even his real signature is difficult to authenticate because it's essentially a series of squiggly lines scribbled in Sharpie marker, Gaynor says.

"Those modern signatures are going to be really hard for people to sell one day," he observes.

In another strategy to earn the most for his items, Gaynor uses big photographs in his auction postings. Lots of times, he uses a flatbed scanner instead of a digital camera, to capture a clear, sharp image of the product he's trying to sell.

All SCGaynor auctions include three-inch photographs that provide bidders a sometimes bigger-than-lifesize view of the item for sale.

powerpointer

When listing items where you need to capture a sharp image, use a flatbed scanner instead of a digital camera.

With a digital camera, it's impossible to get a close, tight shot of a small item like a baseball card or a collectible pin. But if you put that item directly on the scanner, "it looks great on the screen," Gaynor says. "The better your scan, the better your photo, and the better your price. If you have a bad photo, it's going to affect your sale price, especially if it's an item where authenticity is an issue. People are going to think you're trying to hide something. One of the easiest ways to spot a fake baseball card on eBay is when you see it's not clearly scanned."

TITANIUM TALK

Scott Gaynor has been entrenched in the sports memorabilia hobby since he was five years old. Experience breeds expertise. After college, Gaynor turned his hobby into a career, and now auctions off pricey sports collectibles for a living on eBay. Here Gaynor, president of SCGaynor Auctions, shares his knowledge about what items are collectible and what things strike out every time on eBay.

Q: Would you ever conduct a reserve price auction?

A: I very rarely ever tell people they should use a reserve. I do it only when it's an item with a really thin market. For example, an item that's a really high-quality Muhammad Ali piece. That said, Muhammad Ali doesn't sell near as well as people think. The same is true for Joe DiMaggio merchandise. It could be a great piece, but there are really only a couple of guys out there who collect it. So, if it's worth $10,000, I wouldn't want to throw it up there for $9.99 because it would go for $500.

Q: Why don't items from Ali and DiMaggio sell well? After all, most would assume that collectibles from these athletes would be worth a pretty penny because of their name recognition.

A: I don't really know. They should sell for more. Muhammad Ali is sort of recent in sports history. It's only in the last 40 years. I don't think DiMaggio was as likable [as some other baseball players and sports stars]. He kind of kept to himself. Guys like Mickey Mantle, Babe Ruth, or Michael Jordan—who were always in the news and real likable guys—are the kind of players people like to collect.

Q: What about someone like Ty Cobb, who doesn't exactly have a reputation as a likable good guy?

A: He sells well because the material that he's on is old enough, and he was just such a great player. People love the whole idea of Ty Cobb.

Pete Rose is very collectible because he was such a hustler. Ty Cobb was the same way. They played hard, and people respect that.

Q: Who's the most collectible athlete?

A: Anything Babe Ruth, Mickey Mantle, or Ted Williams when it comes to baseball. When it comes to boxing, it's probably Joe Louis and Jack Dempsey. Mike Tyson's newer stuff isn't that popular, but if you go back to some of his early fights in the mid-1980s, that can be really good.

Q: Is baseball the strongest sport in terms of collectibles?

A: Yes, by far.

Q: Is that because it's the oldest of the professional sports?

A: There's a lot of memorabilia. It's the sport that was established earliest, in terms of collecting. People in the 1940s and 1950s were starting to collect baseball stuff, whereas football was still really a college sport. Basketball, in the 1940s, was just beginning the first real leagues. Hockey was the same way. It was a northern sport that people throughout the country didn't really pay much attention to.

Q: How do the sports rank, in terms of collectibility?

A: It goes baseball, football, probably boxing, then basketball and hockey, in terms of popularity.

Q: Given that you sell mostly older things, are you seeing any interest in women's sporting items?

A: Yeah, we had signed mini helmets from a women's Olympic softball team. They sold for around $80. But I would say if it wasn't an Olympic helmet, you probably couldn't sell it. Women's basketball is almost not collectible at all. You do see stuff from Babe Didrikson and some of the women tennis players.

If you have a women's piece that's early—let's say a circa 1900 photo of a women's baseball team—that's good stuff. Or [very old memorabilia of a] women's basketball team. But there aren't really that many female athletes that people go crazy over.

Q: Not even marquee players like Mia Hamm, Cheryl Swoops, or even a Serena Williams?

A: It's just too new. And people who spend a lot of money and collect don't buy their stuff. Maybe they don't relate to them.

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profile

Sell2All

By the fall of 1998, Brandon Dupsky's wife was beginning to think her husband was a shopaholic. Every day, she'd come home to find that the postman had delivered yet another package containing merchandise Dupsky had bought on eBay. Dupsky's purchases weren't expensive enough to be alarming—just a few dollars spent here and there. And he wasn't buying anything extravagant or useless. In fact, everything in those boxes was something that the Dupskys or their kids could use—if not now, then later.

But there were a lot of boxes. More and more every day.

If Dupsky's wife had hauled him onto a pop-psych television talk show back then, the host surely would have diagnosed him as a crazy spendthrift with an addiction to eBay. But every purchase Dupsky made on eBay was an investment in the business he planned to start. Buying was his quirky—and ultimately highly effective—brand of market research.

Back when he went on his eBay buying binge, Dupsky was juggling a full-time job in logistics and supply chain management for a big company while attending night school at the University of Nebraska. Dupsky had long been the entrepreneurial sort: "I've always wanted to have a business," he says. "I've always wanted to try to figure out how to make money, find an opportunity, and run with it, but I didn't know what *it* was going to be."

Between the MBA classes, his experience in supply chain management, and the still-fledgling eBay web site, Dupsky found just the spark he needed.

During his time in supply chain management, Dupsky noticed that the companies that he had worked for—and indeed many others—mismanaged surplus inventory. "For every company that I contacted, surplus inventory was a pain point for them," he says. "They all complained about it. They all mismanaged it. They all lost money in that area."

Dupsky struck upon the idea of selling these goods on eBay, thus creating a new channel for liquidating excess inventory. "I put one and two together and

[discovered] a solution," he says. "Any company has surplus inventory. Let's sell it direct to the customer. Let's sell it on eBay."

That's just what Dupsky does now through Sell2All, which is based in Lincoln, Nebraska. In six years, he has grown his basement hobby into a big business that pulls in just under $10 million in annual revenues by selling surplus goods for more than 200 companies, mostly manufacturers and distributors. The company, operating under the eBay user ID "sell2all," closes 200 to 600 auctions a day. It also sells merchandise through the web sites Bidmix.com, ElectronicHeadQuarters.com, CloseoutHeadQuarters.com, uBid.com, Amazon.com, and Half.com.

In Dupsky's view, Sell2All has the potential to get much bigger, in terms of both revenues and supplier relationships.

"It's my opinion and belief that we're offering a better solution to a long-term problem," he observes. "Companies have surplus inventory and they don't want to manage it. They don't want to deal with it, and they look at it as [an unrecoverable] cost of doing business. We solve that problem by recovering the value [of the surplus items] by selling it in a market channel that is considered noncompeting with their existing channels. And we provide them a higher return on that surplus than they've been able to get from the traditional liquidation type process."

powerpointer

Offer companies a way to recover the value of surplus items by selling them through a marketing channel that doesn't compete with established existing retail channels.

Dupsky continues, "We see ourselves as what they call a 'disruptive technology. We see ourselves disrupting the way people would normally liquidate their inventory. We see ourselves in the very early stage of our life cycle. The early adopters are really using us today, and we see the masses coming. We have 200 relationships. We could have 2,000 relationships tomorrow. It's just a matter of building those connections and contacting those companies and offering our services and getting them to believe this is actually a better solution than what they're doing today."

But that's getting a little ahead of the story. Sell2All's success was years in the making. In fact, Dupsky started off like many eBay sellers do—sitting in front of his home computer every night auctioning off small-ticket items. That little bit of extra money he earned on eBay fueled his much bigger dreams.

As Dupsky explains, "In the beginning, I started off very conservatively. I did it out of my house. I did it part-time while working and going to school for about a

year and a half. It's not like I got a lot of guts and jumped into this headfirst and quit my job yesterday with no revenue. I took my time. In the beginning, it was very slow. But once I confirmed my assumptions and figured out the vision, I did jump in."

Remember all that buying Dupsky did in the summer of 1998? That's how he learned to be an eBay seller. On July 15, 1998, Dupsky joined the million or so other consumers who had discovered eBay at that point and registered a user ID. He began bidding on little items here and there—things that didn't take a big bite from his wallet but were a huge investment in his business.

"One of the ways I learned how to sell better was to buy from other people," he says. "I looked for small dollar stuff and variety of stuff, stuff that I could use for my kids later on."

powerpointer

One of the best ways to learn how to sell is to buy from others on eBay. Take notes on how they operate, and figure out ways you can do it better.

With every purchase, Dupsky took notes, making comparisons among the sellers, and compiling his own list of eBay dos and don'ts.

"I wanted to know how they e-mailed me. I wanted to know how often," he says. "How did they pack and ship? How did they collect money? I wanted to know the various ways they promoted their business. Did they include stuff in the package? I tried to buy from a variety of people back then."

Before long, Dupsky was a seller himself, auctioning off record albums he bought cheaply at garage sales, thrift shops, and local Goodwill stores. Pretty soon, he moved into other categories, cherry-picking the best bargains at thrift stores and yard sales, and then listing the merchandise for sale on eBay for a tidy profit.

"It was great back then. In 1998, I could buy an album for a dollar at a thrift store and sell it for $5, $10, $20, $50," he says. "You had those extreme wins, and they were fun to have, and you still had stuff that didn't sell at $1. At the time, I was making a few hundred dollars a week in extra income selling records."

With a few lessons in eBay selling under his belt, Dupsky was ready to apply what he had learned to his business plan and begin auctioning off other companies' surpluses.

In January 2000, he hired three interns from the University of Nebraska (which continues to be a steady source of labor for Sell2All) to help him grow the business and find companies that had excess things to sell. "We were looking for

consumer goods, something you would see in a Wal-Mart or a Best Buy or a Circuit City," he says.

In the beginning, Dupsky and his interns didn't have an office. His basement was still command central. It was the corporate headquarters, customer service department, warehouse, and shipping depot. Whenever there were company meetings, Dupsky and his employees met at local restaurants or at the university's College of Business Administration.

Then, they lucked into an office. On a sales call to a potential customer—a distributor for dollar stores—Dupsky noticed a storeroom full of products. Dupsky struck a deal with the distributor: He would auction off the company's excess inventory if he could use the storeroom as office space. The distributor consented, and Sell2All was suddenly a real business, not just a basement venture. Taking on the dollar-store merchandise, however, wasn't the best business move Dupsky has ever made.

"We were trying to sell their product on eBay, and it had hits and misses on success," Dupsky admits. "It wasn't as successful as I was hoping. I was still learning back them. The dollar level is just too low for that market."

Today, Sell2All—which has moved twice since finding the storeroom into increasingly bigger offices—prefers to resell high-demand consumer goods that are worth at least $10 and usually much more. It wants items that can be bought in volume and resold for a nice profit. "We don't get as excited if it's below $10. We don't get excited about lower-dollar, high-volume product. There's not as much money to be made per transaction," says Dupsky, who is the company's president and chief executive officer. "We really don't like to sell one of anything. We like to bring in a case of it, a pallet of it, a truckload of it. I like to buy 10 of everything, 20 of everything (or more) because then the merchandising activity is spread across multiple sales."

powerpointer

Stay away from selling low-priced merchandise (with a value of less than $10), since it's hard to make much money given the slim margins per transaction.

The types of items Sell2All auctions off vary from month to month, depending on what its suppliers have in overstock. The company sells numerous car audio components, computers, and electronics goods, including DVD recorders. But it also deals in things like softball bats, massage chairs, and baby bike trailers, which are strollers that attach to a bicycle.

"Our strategy is not to be a niche player," Dupsky shares. "We've decided we don't want to be the largest car audio seller. We want to be the largest general merchandiser, and we feel like we are. We are the Wal-Mart of eBay, in a sense. We're like a department store."

The bike trailers turned out to be a good buy—an item that Sell2All characterizes as a having high "star power." The company's inventory control system, built by a trio of in-house programmers, tracks how well and how often items are selling after being posted for auction. The computer system automatically assigns each item a "star power" rating, ranging from one star (bad sellers) to six (excellent sellers). An item's star power determines how often it is listed for sale—six-star items go up for bid more frequently. The ratings also help Dupsky and his category managers determine what types of things to buy and avoid in the future.

"We track it very, very carefully," he says. "We know which items are making us money and which aren't and whether it's a good buy."

powerpointer

Assign ratings to products, based on how well they sell. Then, concentrate on selling more of those highly rated products, while reducing your inventory of items that aren't attracting much interest.

EBay is a delicate and ever-changing marketplace. What's hot today could fizzle tomorrow.

That's particularly true with electronics, where technology changes so quickly and the next best thing is always on the horizon. "The electronics category is challenging," says Dupsky, whose eBay store inventory is about 30 percent electronics items, with the balance in car audio and accessories, sporting goods, cameras, home improvement items, appliances, gifts, and professional-quality audio gear. "The electronics category is later in its life cycle, so it usually has more supply than demand. It's hit and miss."

EBay's merchandise categories are all at a different phase in their maturity, Dupsky says. "Some are so mature, and so saturated, like cell phone accessories, that it's almost impossible to make money at it. Other categories are in their earlier stages. For us, those bicycle trailers are a good example. We found an item that people wanted and they were willing to buy on the Internet, and there just wasn't enough supply out there yet. So, as we posted them, they sold.

"We trip across opportunities like that. In some categories, demand is greater than supply, and in others it's the opposite—supply is greater than demand."

powerpointer

Aim to sell in categories that are not yet mature and saturated on eBay—in other words, where demand still outstrips the available supply.

Given these realities and the inherent difficulty of finding merchandise that will be a consistent, steady seller on eBay, Sell2All manages its risks by acquiring merchandise in three distinct ways—buying directly from manufacturers and distributors, in partnership with drop shippers, and on a consignment basis.

Buying Directly

If the deal is right—that is, if his price is low enough compared to the likely resale price—Dupsky will buy a manufacturer's or distributor's excess inventory outright and sell it directly to consumers on eBay. In that way, "I'm like a retailer," he says. "They give me a price and surplus list, and I bid on it."

powerpointer

Look to buy excess inventory directly from suppliers, not from distressed retailers who probably overpaid for it in the first place.

Sell2All doesn't often compete with retail liquidators who buy out bankrupt stores and host deep-discount sales for consumers. Prices at this level are too high for an online reseller to recoup much of a profit, says Dupsky, who learned that lesson when Zany Brainy, a chain of educational toy stores, closed in Nebraska.

"What I learned there—and other times—is the retail channel already paid too much for that inventory," he says. "They bought it from a distributor or manufacturer, and [even in liquidation] they want to make a profit. They don't want to lose their money. It's already gone too far down the channel and they've overpaid for it."

All the inventory Sell2All buys is taken to its warehouse in Lincoln, Nebraska, where it is prepared for auction.

Every item that comes into Sell2All's possession eventually must leave the warehouse. Dupsky used his logistics and supply chain management back-

ground to build what he describes as an efficient, automated, and controlled shipping department.

Like many big eBay businesses, Sell2All bar-codes every item. The bar codes help the company keep track of the thousands of items scattered throughout the warehouse.

powerpointer

Use bar-coding technology to keep track of your inventory.

When an auction ends and the bidder pays, Sell2All's computer system creates a packing slip that includes the item bar code and the customer's information. A warehouse employee scans the bar code on the packing slip, using a handheld Palm computer equipped with an infrared scanner. That one pass with the scanner calls up a wealth of information from Sell2All's inventory database. Specifically and most importantly, it tells the employee where that item is warehoused.

When he finds the right location, the employee scans the bar code on the shelf and on the item. If the employee makes any misstep, such as scanning the wrong shelf or the wrong item, the Palm handheld alerts him to the mistake.

Back at the packaging station, the employee weighs the item and then scans its bar code and the bar code on the packing slip again. If the weight of the actual item doesn't match information that is in the inventory database, there's another alert, warning that the warehouse worker may have the wrong item.

This system of scanning and rescanning provides enough checks and balances that Sell2All has virtually eliminated any in-house shipping mistakes. "I never hear about them," Dupsky says. "It's at such a low volume that it's not something we worry about."

Drop Shipping

Dupsky's company has relationships with about 30 distributors across the country. In these instances, Sell2All's merchandisers examine the distributor's catalog and choose those products they believe will sell best online and deliver the best profit margin. When an item sells, Sell2All shares the profits with the distributor, which ships the item to the winning bidder.

These distributors log in daily to Sell2All's computer system to see what orders their warehouses have received that day. Then, they're able to print packing slips and pick and pack the order. When an item is shipped, the warehouses forward

the tracking numbers to Sell2All, which sends the customer an e-mail message containing delivery information.

Consignment

In the third scenario, companies with surplus inventory consign their items to Sell2All to auction on eBay. Sell2All takes possession of these items, storing them in its warehouse until the auctions close. Dupsky's company earns a commission on each consigned item it sells on eBay.

Each of these three methods has its pluses and minuses, Dupsky says. Buying and reselling gives you the potential to make more money, but only if you choose the merchandise wisely and negotiate a good liquidation price to begin with. Make a bad buy, and you could wind up with a warehouse full of merchandise that you can't sell. If you pay too much for the liquidated goods to begin with, you may lose money on every auction.

With drop shipping, someone else contends with the hassles of shipping the product to the consumer. The trade-off is that your profit margin is lower and you lose inventory control. This has been a nagging problem for Sell2All. In fact, most of the company's negative feedback (just 2.5 percent of more than 91,000 ratings) stems from problems with its drop-shipping partners.

powerpointer

One downfall to working with drop shippers is that you lose control over the inventory, which can ultimately cause customer service problems (for instance, if products are shipped late or in poor condition).

"The challenge for us has been inventory control of the 30 drop shippers. They don't just sell to us; they sell to a thousand other [companies]," says Dupsky, whose computer programmers are working on solutions that will help Sell2All track the inventory in its distributors' warehouses as well as it tracks the inventory in its own warehouse.

This is what happens: When Sell2All begins an auction, it confirms that the item is still in stock in the distributor's warehouse. However, there's no temporary hold placed on the item within the distributor's inventory system. Therefore, by the time that auction ends seven days later, the stock may have been sold to another of the distributor's clients, leaving the eBay customer out of luck.

"We don't know what they have, what they've got coming in, and what they've sold," Dupsky explains.

When an item is oversold, Sell2All will offer the winning bidder a refund, a coupon for another purchase, a replacement item, or a free upgrade. "We try to ease the pain when it happens. It does happen, in my opinion, more often than it should, and we're still working on improving it," Dupsky says. "We want [drop shipping] to be a percentage of our business, but at the same time we want to manage it better."

Consignment also has its challenges. The money you can earn often isn't as good as what you could earn as a reseller; Dupsky says sometimes the merchandise isn't suited to the online market and won't earn a good price on eBay, anyway.

"For me," Dupsky says, "it's just a matter of managing the mix so that they all three help the biz in the right way."

powerpointer

Ideally, buy and ship merchandise from numerous channels. Buy some things directly from the manufacturers with overstocks, take other items on consignment from companies, and selectively contract with drop shippers.

Sell2All operates more like a traditional retail store than many Titanium PowerSellers. At any given time, the company has about 5,000 items for sale on eBay. About half of those items are in Sell2All's eBay store. When customers find something they like, they can click on a Buy It Now button and do just that—buy it now at a price set by Sell2All, not by other bidders.

When Sell2All posts items for sale through an eBay auction, the company doesn't leave pricing to chance, either. You won't find many Sell2All auctions where the bidding starts at $1. Instead, the opening bid is higher, priced so that Sell2All makes a profit on every item.

In a volume business, turning over inventory quickly is a key to making money. What is in Sell2All's warehouse today won't be there in a month. "Our objective is to sell it as fast as we can," Dupsky explains. "Sitting on inventory, you don't make money."

To make sure that old products are constantly flowing out the door, Sell2All's proprietary auction management system is designed to automatically mark down items as their star-power rating drops. It's similar to what happens at Wal-Mart and Target, when slow-selling merchandise winds up on the clearance rack, sometimes at prices cheaper than what the retailer paid for it.

"If an item slows down on its star power and we still have inventory, [the computer will automatically] reduce the price," Dupsky says. "The system will say, 'I can't sell it at $120. Let's try $115. Let's try $110. Let's try $100.' What that does is it allows us to move inventory, even if I have to lose money to some degree, which is better than keeping it for another year, when I'll probably lose more."

powerpointer

If you don't start auctions at a low level (usually $1 or less), develop an automated way to lower the opening bid price as the item's rating drops. Otherwise, you may never sell the item, and will wind up sitting on it indefinitely.

If an item is a real loser, Sell2All will auction it off with a starting price of $1 and no reserve, so it's sure to catch at least one bidder. "We'll actually liquidate our own liquidation inventory," Dupsky said. "For me, it's better than sitting on it."

TITANIUM TALK

Unlike many Titanium-level eBay PowerSellers, Sell2All's Brandon Dupsky doesn't begin bidding on his auctions at $1. Instead, he starts each auction at the price he's willing to sell the item for. This method, Dupsky contends, helps Sell2All manage its profit margins and prevents the company from losing money on its liquidation inventory. Here, Dupsky discusses the benefits of fixed-price auctions.

Q: So, you're not one of those sellers who goes out and starts everything off at $1?

A: We are one of the kings of fixed-price selling on eBay. We are one of the larger companies that use that model.

Q: Do you tend to have a lot of inventory in your eBay store, or do you run more traditional auctions?

A: It's a mix. We've probably got about 5,000 to 6,000 listings right now. I'd say half of those are in the store-listing format. The other half are in what's called the auction format, but it's a fixed-price, Buy It Now auction—a seven-day listing, but at a fixed price and in multiple quantities.

Q: Why do you do it that way when so many other sellers swear by starting auctions low and letting the marketplace set the price? Why is fixed-price selling preferable for you?

A: It depends on what you're selling. If you're selling antiques, collectibles, or one-of-a-kind merchandise, the $1 no-reserve model works. If you're selling stuff that's more of a commodity, something you can find in a Best Buy or a Wal-Mart on the shelf, you've got competition. And there's more competition out there than there is demand. So if you do it as a dollar auction, the buyer's market already has learned that if I don't win this one, there's another one coming in an hour or a day. But some buyers want it now. They don't want to wait another day.

If you talk to most large sellers, many are going to say the $1 no-reserve model is not as attractive as it used to be. The supply is greater than demand in many categories. I can't buy an item for $100 and sell it for $80. I'll go out of business.

To protect ourselves, we must have a price we're willing to accept—whether it's $120, $130, or whatever. We have to list things with that kind of a threshold and that kind of a pricing model.

We know what we paid for it. We know what we want to get for it. We just want to see how much we can sell as fast as we can sell it. It's more of a volume business.

18 profile

zTradingPost

On the first day of his new job, Steve Mack's boss asked, "Why do you want to be a certified public accountant?" It's a question no one had ever asked Mack before—not his professors at Arizona State University, nor the people who initially interviewed him for the position at the public accounting firm.

The question shocked Mack, and not just because he had never been quizzed about his professional intentions. He was stunned that he couldn't come up with a single reason why he had chosen that career. And, in that moment, he decided he really didn't want to be an accountant after all.

Mack left for lunch that day, and never returned to the office. He instead decided to make the family pawnshop business his career.

In 1875, Mack's ancestor, Luis Makovsky, opened a pawn brokerage in Seattle. In 1925, a new generation of the family, Leon and Ester Mack, moved the family business to the San Francisco Bay Area. By the 1950s, another generation of Macks had taken over. In 1959, Ron and Judy Mack moved the family business from California to Reno, Nevada. They established Cameo Jewelry and Pawn, which became one of the most successful pawnshops in Nevada. Their son, Steve Mack, joined the family pawnshop in 1981 with big dreams of growing the business and improving the reputation of the pawn industry.

When Mack came onboard, his family owned one store and had six employees. Today, the Mack family's SuperPawn empire has 40 company-owned stores and eight franchised locations in five states: California, Texas, Arizona, Nevada, and Washington.

The SuperPawn empire is more than bricks and mortar. The company lists more than 400,000 items for sale through its online division, zTradingPost. And the company, which does business under the eBay user ID "ztradingpost" boasts online sales of $2.5 million to $3 million annually.

The story of how a chain of pawnshops became one of eBay's biggest sellers begins even before eBay existed.

In 1988, seven years into his tenure as head of the family business, Mack hired a few computer programmers to develop point-of-sale technology that would help the company better evaluate the personal property its pawn customers brought in for cash.

People who are down on their luck and need quick cash can get it from pawnshops. They bring in their jewelry, stereo equipment, tools, musical instruments, and the like, and either sell them to the pawnshop, usually for much less than the items are worth, or pawn their items, whereby the pawnbroker keeps the merchandise as collateral and lends them money based on its resale value.

Most pawn loans range from 30 percent to 50 percent of the item's resale value, according to the National Pawnbrokers Association. Borrowers usually have 60 to 90 days to repay their loan. About 20 percent of those who borrow from pawnbrokers don't pay back the principal and interest they owe, and therefore forfeit ownership of their property. Pawnbrokers resell these goods, usually at prices that are 30 percent to 50 percent less than retail, according to the National Pawnbrokers Association. The business model provides pawnshops two distinct ways of generating revenue—through interest on collateral loans and through merchandise sales.

Figuring out which items to accept—and how much money to lend for them—has always been a challenge for pawnshop operators.

"If you're working behind a counter in the store and somebody brings you something you don't know about, there's a propensity not to take it," Mack says. But he wanted to empower his store managers to be able to take in more merchandise and give out more loans, thus besting their competitors in the pawn industry.

To accomplish that, Mack invested more than $2 million annually over a 10-year period to refine his company's point-of-sale technology, which he called Pawn Retail Inventory Management and Accounting (PRIMA). The system, among other things, includes a photographic and informational database of more than 1 million commonly pawned items. When someone brings in a new item to pawn at one of SuperPawn's stores, managers can check the database to find out how much the merchandise is worth, how much the company's stores have been able to sell it for, and the maximum amount of money they should lend for that item.

"We took a contrarian approach to how pawnshops were previously operated," Mack says. "Pawnshops historically have always been taught to give as little money as possible. We've always felt that if you give the customer the maximum amount, they'll come back more frequently. That's how we beat out our competitors."

The PRIMA software, launched in 1999, allowed the company to do that because it gave managers a consistent way to benchmark and evaluate items that were coming into their stores. "We were able to expand our business so dramati-

cally that at one point we had more merchandise than we could sell through our stores," says Mack. In 2001, he began looking to the Internet for alternative channels to sell all the items that had been collected through his SuperPawn locations. "It really put our entire business model at risk until we went on eBay," he adds.

Initially, SuperPawn struggled to find an efficient and cost-effective way to sell on eBay. The company considered having stores send all their eBay items to one central location for posting and processing. "We never found a way to centralize it," Mack says. "We never found a way to move the stuff from one point to another without breaking a substantial part of it."

Mack eventually decided that the best solution would be to have the pawnshop that acquired an item sell it on eBay. Even that wasn't as simple as it sounded because store employees had to spend a lot of time tending to their auctions.

Selling the goods online wasn't a problem, but managing the auctions and inventory was a huge and expensive headache.

For three months, SuperPawn conducted what it calls an "activity-cost analysis" to determine how much it was spending to sell on the Internet. The total included eBay-specific costs like shipping and packaging expenses, as well as other internal business expenses, like employee salaries. The company discovered it cost about $23 and took approximately 25 minutes to process each item for sale on eBay.

To profitably sell on eBay, SuperPawn needed to figure out how to shrink both those numbers, according to Mack.

powerpointer

To be profitable, you must find an efficient and cost-effective way to process each item put up for sale on eBay.

"We found that while it's easy to sell on eBay, it's hard to wrap, pack, and ship," Mack says. "It's hard to manage the e-mails and product questions because we're so horizontal. What I mean by that is we sell into so many categories. We're not a niche seller. We're not selling in any specific category where you can really become expert at it. We don't know what we're going to sell. We don't know what people are going to bring in."

Mack realized he had the tools to help his employees sell on eBay locked inside the company's data-rich point-of-sale software. He just had to figure out how to integrate that information into eBay's selling platform.

His company joined the eBay Developers Program and invested more money in programming to develop a technology solution that would connect SuperPawn's point-of-sale system to eBay to make listing, categorizing, and fulfilling

items much easier. The programmers succeeded, creating technology that has lowered SuperPawn's per-item processing cost to 25 cents and reduced the time employees spend on each item to just seven minutes.

How is it possible to photograph an item, write a description of it, and post the ad to eBay in seven minutes? It's not. But then, SuperPawn employees don't have to go through those steps.

When a pawn customer brings in a new item, a store employee taps into the company database and pulls up information—and often a photo—that has already been collected about that item. Then they simply answer a series of questions about the used item. Those answers—and the photograph—are aggregated in a separate file that is later used to launch an ad on eBay.

Mack explains the process, using a digital camera as his example.

"When somebody brings a digital camera into a store to sell, you are prompted to ask questions like, Does it have the original box? Does it have the owner's manual? Does it have the cable that hooks from the camera to your computer? Does it have a memory card? Does it have the original case? Does it have a strap? Then you have a condition rating," Mack says. "These are all the unique questions you need to have answered in your auction template. The system really enables people with a very limited amount of experience to sell successfully on eBay."

Even when a customer brings in an item that SuperPawn has never sold before, the process is nearly as easy. Employees can add a new item and photograph to the database, and then "write" the item description by answering questions that are specific to that particular category of merchandise.

powerpointer

Build an electronic template that automatically creates an auction listing by simply answering a series of questions about the item.

The software is constantly refining these item- and category-specific questions, Mack says, based on the queries the company gets from its auction and in-store customers. "We're continually asking the more refined questions over time so that we can become experts in every category," he explains.

Based on the information that is already in the database and the answers to the item-specific questions, SuperPawn's software creates an eBay ad. The ads include either a photograph of the actual item or a so-called model picture with the notation, "Item may vary from this photo." Merchandise is described through a series of bullet points, along with an appearance and functionality rating.

Consider this zTradingPost ad for a DeWalt heavy-duty circular saw:

- ❑ Corded
- ❑ Blade Size: $7^1/_4$
- ❑ Original box not included
- ❑ Manual(s) NOT included
- ❑ Does not include case
- ❑ Voltage/Amps: 13 amps
- ❑ RPMs: 5,500

The ad further ranks the item's appearance as 3 out of 5, with "minor cosmetic flaws; may have insignificant scuffs, scratches." The functionality is rated 5 out of 5—"Completely functional. Item has been determined to be 100 percent functional; this includes all product features. Shop with confidence backed by a money-back guarantee!"

Three months after launching its integrated auction-processing software, 90 percent of SuperPawn's stores were selling on eBay. (Prior to that, only 6 percent of the stores sold through the online auction site.) Within three months, SuperPawn, which is based in Las Vegas, Nevada, had achieved Titanium PowerSeller status based on the volume of auctions its stores were closing on eBay.

"In a quick, short 90 days, we were selling over $200,000 a month," Mack says. The new technology enabled SuperPawn stores to clear out a year and a half's worth of excess inventory in six months, Mack claims. "Now, we're getting rid of stuff that we can't sell in stores," he says. "We're selling broken stuff right now. We're getting rid of overstock, unwanted, and broken goods on eBay right now. We also sell aged inventory, which consists of items that just sit around for so long they're not worth having anymore."

Instead of issuing an order mandating every store to sell on eBay when SuperPawn began its online venture, Mack gave his managers and employees incentives to do so. He encouraged store-level employees to tend to their eBay business when their retail traffic was down. "When there are no customers in the store, fulfill the items and post auctions," he told them. But he made eBay more than just busywork; employees earned a commission for every auction they posted and fulfilled.

powerpointer

Give employees an incentive to sell goods through eBay. That way, you'll both come out winners.

"We knew we couldn't do it well without them," Mack explains. "You need the employees. You need them to do it well. You need them to wrap [an item] and put it in a box with care. And they need to do it quick."

Two years later, eBay has become an integral part of SuperPawn's business. The company's retail locations now serve as both pawnshops and eBay drop-off stores, where people seeking cash can consign goods in 1,800 categories. (Consigners usually get a check for 60 percent of what the item sells for on eBay, minus the eBay final value fee.)

"It's expensive right now," Mack says of the commission structure for eBay drop-off businesses like his. "That's because there's just a lot of touch required. I believe over time as the industry becomes more competitive and efficient, the price will drop to around 25 percent to 30 percent on average. Right now, it starts at around 40 percent."

All items posted to eBay by individual SuperPawn stores are listed under a single user ID, "ztradingpost." (The stores still use the SuperPawn name, but its online customers know the company as zTradingPost Merchandise Exchange.)

When an auction closes, the store where that item is inventoried receives an instant message with details about the sale. Store employees package the item, print out a FedEx label, and ship the box to the eBay buyer. Each store gets a separate feedback report, so it can make any necessary changes to customer service or shipping practices.

powerpointer

If you have several existing bricks-and-mortar stores, consider having each location be involved in the eBay listing and shipping process.

Selling on eBay provides each SuperPawn store a customer base well beyond its local neighborhood, Mack believes. "It really empowers stores to become more global competitors because now they can use their single store as a national hub of distribution," he says. "I really think we've enabled small businesses by extending their reach of distribution."

Selling on eBay has had huge implications for SuperPawn's core business—lending money for merchandise. In the past, the local marketplace constrained store managers. They could accept and offer loans only on merchandise that they were certain would sell in their stores. Now, on every item that comes in, managers are able to consult the corporate database to determine how quickly and for what price they can sell the merchandise in three different venues: in their store,

on the zTradingPost web site, or on eBay. (The company uses the results of past transactions to compute prices and selling times.)

Eventually, zTradingPost intends to make this data available to its consignment customers as well. People who want to drop off their goods at a trading post will be able to log onto the company's web site and see how much that item is estimated to fetch on eBay.

The company also compiles other information about the items it sells. For instance, Mack wants to eventually be able to provide store managers and consignment customers with advice on the best time of the year to post certain types of merchandise.

The most obvious example, he says, "is you don't sell skis in the summertime. "But we believe there's untapped opportunity in knowing exactly which categories to post throughout the year."

Though SuperPawn has enjoyed enormous success, the company's business model still has its challenges.

Perhaps most significant is that zTradingPost can't offer shipping discounts to customers who purchase from more than one of its auctions. That's because its merchandise isn't inventoried in a single location. A Zenith amp is at the SuperPawn store in Phoenix, Arizona, while a Dremel tool is in Parhump, Nevada, and a Yamaha keyboard is in Scottsdale, Arizona. If one customer bids on all three items, he or she will pay three separate shipping charges and receive three separate boxes.

Though zTradingPost discloses this information in all its eBay ads, Mack says, "It's interesting how many people still complain about our shipping."

Another drawback of the company's business model is that zTradingPost does not allow bidders to pay for their auctions through PayPal. When building its auction processing system, Mack's company worked with Wells Fargo Bank to create its own integrated checkout system that would sort and filter payments to each store. A customer's only payment option is to check out through that system using a credit card.

Mack acknowledges that the "no PayPal" rule probably costs zTradingPost sales. But currently, the company has no way to integrate its payment system with PayPal.

It seems that Steve Mack's dream to turn his small family business into a large, successful enterprise has come true.

In September 2004, Cash America announced that it was buying Mack's chain of SuperPawn stores for $125 million in cash and stock to strengthen its own pawn brokerage business in the United States. The acquisition left Mack free to pursue his own spin-off eBay venture, zTradingIndustries.

As part of the deal, Mack is leasing the point-of-sale and auction software he

developed back to Cash America. The 48 SuperPawn stores continue to sell on eBay under the zTradingPost brand. Mack is looking to increase his number of drop-off locations by partnering with independent pack-and-ship companies.

In October 2004, zTradingIndustries announced that it had partnered with Postal Annex+ Inc., which is headquartered in San Diego. Postal Annex+ has 275 stores in 30 states that will serve as additional zTradingPost drop-off stores. Mack's company also has a partnership with PCSynergy, a San Marcos, California, company that develops mail-processing systems for independently owned retail postal centers. That partnership could create an additional 2,500 zTradingPost drop-off locations around the country, and other partnerships are forthcoming, Mack says.

"Our goal is to have 5,000 units up and operating in the next 24 months," he claims.

TITANIUM TALK

When Steve Mack decided to start selling on eBay through his chain of pawnshops, he first evaluated how much it would cost to auction off every item. To come up with a total, he accounted for much more than shipping costs and eBay fees. Here, Mack shares his expertise on how much selling on eBay really costs.

Q: When you began on eBay, were you selling strictly out of your stores, or were you moving your eBay items to another location?

A: We tried selling out of our stores, and we tried centralizing it. We tried several different ways to create a more efficient method of selling more product. We were really stuck on what it cost to sell. Early on, we did what's called an activity-cost analysis on what it costs to sell something on eBay or on the Internet. It's very expensive.

Q: You mentioned that at one point it cost you $23 to sell each item on eBay. What were you spending the money on?

A: On the 21 different activities it takes to sell on the Internet. To understand what it costs to sell on the Internet, consider who is currently selling successfully online. You can really only draw about five examples, including eBay, Amazon.com, Wal-Mart, Blue Nile, and Overstock.com. The list is short because it's very expensive to sell on the Internet.

It costs a lot to wrap, pack, and ship something; to create a customer service department; to understand all the processes; to collect the money; to put it into the till; [and so on].

Q: Your $23 per item took into consideration all those costs of doing business online, not just the eBay fees.

A: Yes. People who are selling at home are not collecting sales tax. They're not paying for a business license. And on and on. Are they depreciating the car that they're driving to the post office to ship their items? Are they figuring in their gas costs? Are they figuring in their telephone bills? Are they figuring in their credit card discounts? And the cost of their time? I doubt it.

Maybe some people are satisfied that they're making $30,000 to $50,000 a year with what they're doing on eBay. If they looked at what they're getting paid per hour, I think they'd be shocked.

Q: So, that's what motivated you to develop your own technology to lower your costs of selling enough to make eBay a viable revenue stream for your company?

A: Yes. You can't stack people up to increase your business because there is not enough profit. You need to do it through processes. You can't add bodies. You have to add efficiencies.

Q: Given that it was so expensive to sell on eBay, why did you even bother?

A: I always had the impression that eBay was going to have a huge impact on my business long-term. So we continually invested millions of dollars into technology. We needed to strip out all those activities that we could and figure out how to [accomplish those tasks with] the technology.

We don't believe that a single store selling stuff on eBay is a sustainable business model. We believe the opportunity is to take a good, existing business and add incremental revenue by exploiting its competencies.

PART three

Putting the PowerSeller Techniques to Work for You

Fifty Strategies for Successful eBay Selling

By now, you've no doubt gathered dozens of helpful insights into how best to build a huge eBay business from those who have already done it. What follows are 50 of the most powerful strategies revealed by the Titanium PowerSellers in the exclusive interviews featured throughout *The eBay Millionaire*:

1. If you're selling for other people, set your commission fees high enough to recover all your costs—including eBay listing fees, eBay final value fees, your time, and your expertise.
2. Once you sell an item, retain the buyer's e-mail address, eBay user ID, and mailing address so you can send the customer targeted announcements about other products for sale.
3. Enter every customer's zip code into mapping software, such as Microsoft's MapIt, to find where your customer base lives. Use these results as a guide for scheduling your auctions. For example, if most of your customers live in New York, schedule your auctions to end during prime-time bidding hours on the East Coast.
4. Evaluate exactly how much it is costing you to sell every item on eBay. Remember to include more than eBay fees, postage, and the cost of bubble wrap in that total. Account for how much you're spending for Internet access, on gasoline for trips to the post office, and on long-distance telephone calls. Calculate how much you're earning per hour based on the amount of time you spend on the business.

5. Determine what eBay's best selling categories and items are by searching completed auctions and using research tools from such companies as Andale and HammerTap. Alternatively, read eBay's "Hot Categories Report," which can be found in the web site's Seller Central area. The report is updated monthly and lists categories where demand is growing faster than supply *and* where bid-to-item ratios are relatively high. It also includes auction conversion rates for these hot categories.
6. Don't waste money on infrastructure and aesthetics. Unless you're a trading assistant with a drop-off store, neither your customers nor your suppliers are likely to visit your offices. You don't really need expensive Herman Miller chairs or an address in the swankiest office park in town to run a successful online enterprise. Plus, the money saved on overhead can go straight into your pocket, or to buy more products to sell on eBay. Either way, it's an extra profit for you.
7. Remember that items are worth only what a bidder is willing to pay for them.
8. Become accomplished at cross-selling. Build hyperlinks into your auctions so bidders can see what else you're auctioning on eBay.
9. Pay the extra 35-cent fee to include a gallery photo with your auction listing. These thumbnail-sized pictures show up on eBay's category listings and on search results pages. They'll help your auctions stand out from the competition.
10. When selling an expensive item that is in high demand, consider running it as a "Featured Plus" auction. You'll pay an extra $19.95, but doing so guarantees your auction top-of-the-marquee billing on category listing and search pages.
11. Be consistent about leaving positive feedback for customers who fulfill their end of the transaction by paying for an auction. If you leave positive comments, your bidders are more likely to do so for you as well. Send out follow-up messages to customers who haven't left you feedback and ask them to do so. Don't spam them, though. One request is sufficient.
12. Integrate eBay's free shipping calculator into your auctions so bidders will know what their total cost will be. To find out more, visit http://pages.ebay.com/services/buyandsell/shipping.html.
13. Participate in eBay's Co-Op Advertising Program to promote your business. EBay will reimburse up to $8,000 of a PowerSeller's or trading assistant's print advertising costs each year.
14. Advertise through eBay's Keywords Program. You select specific words and phrases. When shoppers type those words into eBay's search en-

gine, your banner ad pops up above the search results. You pay a fee every time someone clicks on your banner ad.

15. Become a member of the eBay community forum for trading assistants or sellers in your particular field. You'll be able to get advice and share best practices with those who are selling in the same category.
16. When selling in volume, use an auction management tool to automate as many tasks as possible while eliminating repetitive work, so you can focus on important things like obtaining merchandise, marketing, and customer service.
17. Read the "Announcements" message board in eBay's Community section to keep abreast of changes to the web site.
18. Take advantage of eBay special offers. For instance, several times a year the web site lowers its listing fees to a penny. Other times, eBay allows sellers to include gallery images or bold text in their auction titles for free. All of these deals will save you money.
19. Proofread your auctions—especially the titles—to ensure that you haven't misspelled any words. Otherwise, you're limiting your audience to other bad spellers.
20. Since many people are poor spellers, if the item you're selling has a name that is commonly misspelled, include both the correct spelling and the common misspelling in your title.
21. Use brand names and manufacturer names in your auction titles so bidders will find your items through the eBay search engine.
22. If you're willing to take the risk, begin your auction with a low opening price (even a penny) to attract more bidders. In most cases, items that open low sell for more than those that open higher.
23. Beware of reserve price auctions. Use them sparingly because they are expensive and dissuade many eBay users from bidding.
24. If you have multiple units of the same item, give runner-up bidders the chance to buy through a Second Chance Offer. You'll save listing fees, plus your item will sell for a good price.
25. Accept multiple payment methods—PayPal, credit cards, checks, money orders, and certified checks. You'll attract more bidders that way. Do confirm that a check payment has cleared the bank before shipping out the item.
26. Be cautious when accepting payment from bidders in Africa, Malaysia, Indonesia, and South America. These regions are known for rampant fraud. Require international bidders to pay through PayPal, wire transfer, or through a Western Union money order.

27. Carefully inspect and evaluate every item that you list on eBay to ensure it is in good condition and in proper working order. Use the information you glean from your inspection to write a thorough auction ad.
28. Incorporate commonly used product and eBay abbreviations—"NR" for no reserve, "NWT" for new with tags, and "NIB" for new in box—into your auction titles. These details may give browsers an incentive to click on your auction.
29. Focus on selling items with what AuctionDrop's Randy Adams calls a "high value density." In other words, auction off things that cost little to ship and process and yet can be sold for a relatively high price. World Series tickets are a good example of a product with a high value density.
30. Don't sell counterfeit merchandise on eBay. Doing so could be illegal and will rankle eBayers who think they're bidding on the real thing. At the very least, you'll pay for your dishonesty with a low feedback score.
31. For high-ticket items like cars, real estate, or boats, offer financing options. This will improve your likelihood of making a sale.
32. To make it easier for potential customers to get in touch with you, consider listing your e-mail address and telephone number in your eBay auction listings.
33. Use Buy It Now auctions to prompt quicker sales from those who must have your item right away.
34. Open an eBay store and put some items for sale there at a fixed price. It costs just pennies a month, plus a monthly subscription fee, to list an item in the store format. An eBay store is an especially good place to sell duplicate items.
35. Include a packing slip and detailed invoice that includes the auction number and an itemized list of charges in every shipment.
36. Be repetitive. In your auction listings, inform bidders of your shipping and payment policies multiple times and in numerous places throughout the ad.
37. Invest in a 2- or 3-megapizel camera with macro capabilities. To successfully sell on eBay, you must include a photograph with every auction. A higher-quality photo will attract more bids.
38. If you're selling items like baseball cards, historical documents, or books, consider scanning those items rather than photographing them. This will result in a better quality image.
39. If you make a mistake, respond promptly and correct the problem. If an item doesn't ship out when it is supposed to, offer your customer

free shipping. If an item is defective or if the wrong item is shipped, offer the customer a refund or replacement, if available. Also consider throwing in a few extra dollars for the customer's trouble.

40. Read feedback that customers have posted about your competitors. You'll learn what your competition is doing right—and wrong.

41. With PayPal payments, ship only to the confirmed addressee. That way, you're protected if there's any problem with delivery.

42. Seek partnerships with manufacturers that have end-of-life inventory that they need to liquidate. Retailers may also be willing to sell you their customer returns or out-of-season merchandise.

43. If you want to design your own auction management software, join the eBay Developers Program. Members get access to a wealth of technical documentation and specifications. To learn more, visit the web site at http://developer.ebay.com.

44. Don't saturate the market. If you receive duplicate items, leak the product onto the market in small quantities until every unit sells. Don't compete with yourself by posting auctions for identical items.

45. Keep track of who pays and who doesn't. If a bidder fails to pay for an auction, request a refund of your listing and final value fees from eBay.

46. Schedule your auctions to end when traffic is highest on eBay. Sunday evening is always a good time. Keep in mind that people on both coasts will be surfing on eBay, so make sure your auctions end at times that are convenient in both the Eastern and Pacific time zones.

47. Never break the law. Sometimes international customers will ask you to lie about an item's value or underinsure it so they can avoid paying customs fees. Don't help them commit fraud.

48. Consider posting new merchandise at the same time and day every week. Customers appreciate regularity, and it will make your auction operation more structured.

49. When selling CDs, DVDs, video games, and books, take advantage of eBay's pre-fill feature. Simply enter the item's UPC code, or the ISBN number for a book, into eBay's database. Specifics, including the title, author, or director will automatically be filled in. In most cases, eBay will even provide a photograph that you can use in your listing.

50. Don't drive yourself crazy by worrying about making a profit on every single item you sell on eBay. Instead, aim to be profitable in the aggregate and accept that you may have to sell some things at a loss to make room for more inventory.

Resource List for Building Your eBay Business

What follows is a handy resource list (including web site contact information) for the helpful tools and software products mentioned throughout the book—many of which the Titanium PowerSellers use in running their own eBay ventures.

Auction Management Tools and Resources

Andale
www.andale.com

ChannelAdvisor
www.channeladvisor.com

eBay Developers Program
http://developer.ebay.com

Marketworks
www.marketworks.com

Seller's Assistant Pro
www.ebay.com

SpareDollar
www.sparedollar.com

Turbo Lister
www.ebay.com

Vendio
www.vendio.com

Bidder Verification Services

SquareTrade
www.squaretrade.com

Car Selling Resources

Dependable Auto Shippers
www.dasautoshippers.com

Manheim
www.manheim.com

eBay Research Tools

Andale
www.andale.com

DeepAnalysis by HammerTap
www.hammertap.com

Online Payment and Payment-Processing Companies

Authorize.net
www.authorize.net

Billpoint
www.billpoint.com

PayPal
www.paypal.com

Other Sales Channels

Amazon zShops or Marketplace
www.amazon.com

Bidmix.com
www.bidmix.com

Half.com
www.half.com

Overstock.com
www.overstock.com

uBid.com
www.ubid.com

Yahoo! Stores
www.yahoo.com

Publicity and Advertising Resources

BizRate
www.bizrate.com

PRWeb
www.prweb.com

Shopping.com
www.shopping.com

Required PowerSeller Reading

AuctionBytes newsletter for auction sellers
www.auctionbytes.com

Novato Technology's eBay seller rankings
www.nortica.com/UserArea/Default.asp

The Powerseller Report
www.tprweb.com

Shipping Partners and Services

DHL SmartMail
www.globalmail.com

Federal Express (FedEx)
www.fedex.com

FreightQuote
www.freightquote.com

United Parcel Service (UPS)
www.ups.com

U.S. Postal Service
www.usps.com

Software Integration

Real World Ventures
www.rwventures.com

Acknowledgments

All of the eBay Titanium PowerSellers were very gracious in sharing their time and secrets of success with me. One seller, in particular, deserves special acknowledgment. Joe Myeress of Cord Camera went the extra mile and, in addition to my own contacts, helped to connect me with many of the successful entrepreneurs interviewed in this book. Joe, your help was invaluable.

Kirk Kazanjian of Literary Productions also deserves special thanks. The excellent idea for this book originated with Kirk, and I'm so grateful that he chose me to write it.

This book wouldn't have been possible without the patient and loving support of my friends and family. My husband, Bruce Buchanan; my parents, Bob and Betsy Joyner; and my in-laws, Bob and Martha Buchanan, provided more encouragement and help than I deserved. Thank you all.

A. J.

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