

ONLINE VEHICLE AUCTIONS: EBAY, AUTOTRADER, CRAIGSLIST AND BEYOND

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Introduction

With more than 90 million active users globally, eBay is the world's largest online marketplace, where practically anyone can buy and sell practically anything. Founded in 1995 in San Jose, California, eBay connects a diverse and passionate community of individual buyers and sellers, as well as small businesses. Their collective impact on e-commerce is staggering: in 2009, the total worth of goods sold on eBay was \$60 billion or \$2,000 *every second*.¹

With millions of users and products available in this market, it was only a matter of time before eBay would expand into many new categories, just to keep up with demand. eBay built the business by providing a venue for buyers and sellers to make an exchange, why not offer a marketplace for vehicles?

Company Background

Pierre Omidyar started the site in 1995 as a small business enterprise while working for General Magic Corporation. The site was called AuctionWeb at the beginning, but was soon changed due to his preference to name it after Echo Star Technology, the firm that formerly employed him. Because that name was already taken, he shortened it and called the firm eBay. To start, Omidyar instituted small posting fees and final sales fees, and invested all the profits in the expansion of the company. Before long, he was making much more money than at General Magic, so he left and dedicated all of his time to eBay. After only two years, the site was posting more than

800,000 auctions a day and in 1998, when the site went public, there were more than one million registered users. Originally, eBay was seen as an auction site for small collectibles like Pez dispensers, but the categories of products were soon broadened and eBay was selling anything and everything.²

Buyers and Sellers

When a person becomes an eBay member, he or she enters into a new culture based on a curious mix of interpersonal trust, collegiality and caution.³ While real names are hidden until the conclusion of a transaction, buyers can look up sellers' records to see how other buyers have rated them. There are feedback comments on such criteria as merchandise quality, responsiveness to questions and timely delivery. Likewise, sellers can look up buyers to determine their reputation for on-time payment and friendliness.

eBay also offers buyers several levels of protection in cases of misrepresentation and has put systems in place to make the whole process as smooth as possible. Search hits appear in a list with a thumbnail photo of the item for easy scanning. Search results can be arrayed by price, time listed, auction time, and Buy-It-Now availability. The latter is a fixed-price option for those who have their hearts set on an item and can't risk losing it in the bidding process. A Buy-It-Now price is usually, but not always, much higher than the starting auction figure. In the full listing, you can find detailed descriptions, size specifications, a history, and usually more photos from different angles.

eBay is very clear about the rules for buyers and sellers. For instance, sellers must post the item's viewing period. And while buyers may use an easy Web form to exchange personal questions with sellers about an item, all other steps of the process must be conducted in the open. No private deals are permitted, and anyone who engages in this is disciplined. The highest, earliest bid wins. Actual bids, their amounts, and the time they were entered may be viewed after the close of the auction.⁴

Demographic

eBay's target market is basically anyone wishing to buy or sell items or, according to their website, average Americans.¹ According to a study completed at Texas A&M University, residents of rural areas are more likely to purchase products on eBay than people living in urban areas, though urbanites are willing to pay higher prices. This contradicts the principle of reciprocity and the tendency of rural residents to "inshop." However, the finding supports the characteristic of consumers from rural areas as needing more pre-purchase information. The Internet offers many opportunities for product research, and eBay offers an opportunity for the bidder to gain information about the seller through the feedback feature. Also, many products are not available in rural areas, and the most convenient and efficient way for rural residents to obtain them is through the Internet.⁵

eBay Motors

Because other items were selling on eBay so rapidly, users started listing vehicles on the site in January 1999. As more and more listings appeared, sellers asked for a separate automotive category.⁶ Thus began eBay Motors, a public to public online auction site with some vehicles listed for sale at fixed or "buy-it-now" prices.



To make it official, it was announced in a press release that AutoTrader.com, an online used-vehicle classified service, and eBay had combined forces to create an auction-style Internet site where consumers and dealers could buy and sell used vehicles. The new site, www.ebay-auto-trader.com, debuted 7 March 2000. At the time, both companies continued to maintain their separate sites but offered links to the combined site.

Chip Perry, then AutoTrader.com CEO, said the new site exposed eBay's ten million buyers and sellers to AutoTrader's 1.5 million vehicle listings from 40,000 dealers and 250,000 consumers. The goal

of the venture was to provide a practical way for consumers to buy and sell used cars and trucks. eBay was the logical partner to make that happen because of their expertise, technology, brand name and credibility to operate a high-volume complex online auction, a skill set not possessed by AutoTrader at the time.

Consumers and dealers who contacted AutoTrader.com about listing a vehicle for sale had the option of listing the vehicle on either the AutoTrader.com site or the new combined site. Both companies oversaw the development of the site and paid for a co-branded marketing campaign. eBay managed the technical operation of the site and was in charge of customer service. eBay made a cash investment in AutoTrader, and while neither company would disclose the financial terms of the agreement, Manheim Auctions Inc., which founded AutoTrader.com, remained the site's majority owner.⁷

Value Proposition

eBay's value proposition is making inefficient markets efficient by providing a marketplace for buyers and sellers to connect for products that typically do not have an efficient distribution system. Products have a life cycle: first they're new and scarce, then they go into in-season retail, then they become overstocked, obsolete or returned merchandise, and ultimately they become used and vintage. The market for in-season retail is very efficient. There are many in-season retailers, all of whom battle each other every day for lowest price. eBay offers an efficient market for buyers and sellers to connect.

eBay's fundamental value proposition has stayed the same over time but what is surprising to others like past CEO Meg Whitman is how extensible the model has been. "Originally, it was a collectibles Web site, even in 1998, and collectibles are the perfect inefficient market. What has been quite interesting is that this has been extensible to many other categories beyond collectibles—even used cars." She went on to state that eBay did not decide which markets were inefficient but that eBay's user community was "the best R&D lab in the world. What we do is provide an efficient trading platform, and we let the users figure out how to use it. They lead us into product

extensions.” eBay lets its users identify and find pockets of inefficiency.⁸

Revenue Sources

eBay’s online vehicle auctions have basically two fee schedules for sellers, from the first to the fourth vehicle in a 12-month period is one price and then from the fifth vehicle and up during the same year is a lower price (see Table 1). There is also a schedule of fees for listing upgrades designed to get buyers’ attention such as featured listings, super-sized pictures, borders and special icons.

Table 1. eBay Motors’ Fee Schedule

Fees on the first four vehicle listings in a 12-month period			
Category	Insertion Fee	Successful Listing Fee	Final Bid
			≤ \$2,000 ≥ 2000.01
Cars, Trucks, RVs, Campers, Commercial Trucks	\$0.00	\$60.00	\$125.00
Motorcycles, Powersports, Trailers, Boats	\$0.00	\$60.00	\$125.00
Powersports under 50cc	\$0.00	\$10.00	\$ 10.00
All other Vehicles	\$0.00	\$60.00	\$125.00

Fees starting with the 5th vehicle listing in a 12-month period			
Category	Insertion Fee	Successful Listing Fee	Final Bid
			≤ \$5000 ≥ \$5000.01
Cars & Trucks, RVs, Campers, Commercial Trucks	\$50.00	\$0.00	\$0.00
Motorcycles, Powersports, Trailers and Boats	\$20.00	\$30.00	\$60.00
Powersports under 50cc	\$10.00	\$10.00	\$10.00
All other Vehicles	\$20.00	\$30.00	\$60.00

Source: <http://pages.ebay.com/help/sell/motorfees.html>

Financial Results – Measure of Strategic Success

eBay reported financial results for the fourth quarter and full year ending 31 December 2009, posting a fourth-quarter revenue of \$2.4 billion, up 16% from the same period the prior year. This included revenue of \$112 million from Skype for the period that they fully owned it. Excluding Skype from the fourth quarter of 2008 and the fourth quarter of 2009, and their revenue growth would have been 19%. The increase for eBay was due primarily to excellent growth in PayPal and StubHub, and improvement in growth rates in the core eBay business as well as the positive impact from foreign currency movements.

For the full year, eBay Inc. posted \$8.7 billion in revenue, net income on a GAAP basis of \$2.4 billion or \$1.83 per diluted share, and non-GAAP net income of \$2.1 billion or \$1.58 per diluted share. Operating margin decreased to 7.6% for the quarter, compared to 22.3% for the same period last year. The year-over-year decrease in operating margin was due primarily to the impact from a settlement agreement with Skype. Non-GAAP operating margin decreased to 29.3% for the quarter, compared to 32.8% for the same period last year. The decrease in non-GAAP operating margin was caused in part by recent acquisitions and the company's continuing shift in the mix of its businesses, partially offset by productivity gains. eBay Inc. generated \$770.6 million of operating cash flow and \$597.7 million of free cash flow during the fourth quarter.⁹

Competition

Although the size, strength and popularity of eBay can be daunting, there are a few competitors for their automobile business. Two cater towards individual sellers not in the auction arena but in the classified listings market and the auction sites cater mostly to dealer and government sellers. For the individual desiring to sell their vehicle to the highest bidder, eBay has almost no competition.

iBidMotors



In March 2009, iBidMotors announced that it had reached over \$100 million in retail car sales since its inception and had sold over 6,500 cars since launching its exclusive dealer to public auction site (with a “buy-it-now” option available) in 2007. According to its website the company’s portfolio of applications has revolutionized the ways that auto dealers can more effectively drive revenue. iBidMotors enables auto dealers to seamlessly upload their entire inventory into the iBidMotors auction site for a fixed monthly fee and provides dealers with what it deems a cost-effective way to sell cars. Each dealership has a virtual dealership within the site displaying all of its product and financial services to the customer.¹⁰

Copart



It started out as a salvage sales company in 1982. Copart, a strictly auction-style site, sells more than one million vehicles each year through VB2, its patented two-stage Internet sales technology. It has more than 50,000 vehicles offered for sale daily from both dealers and individuals with bidding open to the public (except in some states where individuals are required to go through a broker). Members can choose from classics, early or late model cars, trucks, SUVs, motorcycles, boats, snowmobiles, jet skis, recreational vehicles, and more. Copart sells vehicles for a variety of consignors including finance companies, banks, dealers, fleets, rental car companies and the insurance industry. It also sells vehicles for the public through its fast, easy service called CopartDirect, and for franchised and independent auto dealers through its Copart Dealer Services division.¹¹

Manheim



As the world's leading provider of used vehicle services, Manheim has set the standard for buying and selling vehicles at live auctions and online. It sells inventory auction-style, but also offer dealers a fixed price option with its OVE.com site. Although the bulk of the company's used vehicle inventory is sold to dealers at wholesale prices (dealer to dealer), quality retail inventory through public online auctions is available in limited quantities from several Manheim locations. Manheim knows how to assist Internet shoppers, giving detailed condition reports on the vehicles listed noting everything from paint quality to wear-and-tear on interior upholstery.¹²

Adesa



ADESA, an auction-style site with some fixed pricing available, offers inventory for registered wholesale automotive dealers only. It is closed to the public. Like Manheim, ADESA does hold regular public vehicle auction sales where a wide variety of units are made available to the general public.¹³

AutoTrader



Although AutoTrader has ties to both eBay and Manheim, it remains a force in the used vehicle marketplace. The mission at AutoTrader is to be the ultimate online solution for buying and selling new, certified and used cars. The site offers vehicles for sale at fixed-prices (from both dealers and individuals) to the public and is designed to give a person more control of the buying process while making it easy to find a vehicle.

Its website offers a vehicle buyer the following benefits:

- The largest selection of vehicle inventory
- The most comprehensive selection of buying and selling tips
- Complete research and comparison tools
- Vehicle pricing, including seller specials and dealer discounts
- Safety information and vehicle history reports
- Help with finance, insurance, and warranty programs

AutoTrader.com is a website with more than three million vehicle listings from 40,000 dealers and 250,000 private owners. It provides the largest selection of vehicles online and attracts more than 14 million qualified buyers each month.¹⁴ AutoTrader definitely has an impact on eBay Motors in terms of being a viable choice for individuals to list their vehicles for sale.

Craigslist



Craigslist is another competitor in which eBay has a stake (25% acquired in 2004). The origin of Craigslist dates back to early 1995 as an email list of SF events started as a hobby by founder Craig Newmark. The thing that sets Craigslist apart from the rest is that it is a free, fixed-price sales site available to anyone (dealer and individual to public) that generates more than 20 billion page views per month. It is #7 worldwide in terms of English-language page views. More than 50 million people in the U.S. alone use Craigslist and these users self-publish about 50 million new classified ads each month.¹⁵

Although Craigslist definitely cuts into AutoTrader's bottom line because listings are free, vehicles listed for sale are regionally based with users having to search in each city to find a specific vehicle. It is also not very user friendly and the pictures and descriptions are limited, something to be expected from a free site.

Pitfalls and Problems

There are always unscrupulous people in every marketplace and eBay is not immune. People have created all kinds of innovative ways to sell vehicles that are not as nice as the impression of the vehicle created in the listing.

The formula is the same: most dissatisfied buyers send the seller the money and have a car hauler deliver the car, only to find out (after a refund is impossible) that the vehicle is not what they expected. “No visible rust” often means that body filler has covered the rust. “No evidence of an accident” could mean that the damage from a catastrophic wreck has been well hidden. And just because a car has air conditioning and power accessories, that doesn’t mean they work. Dishonest sellers also tend to leave out critical information, use vague language and photograph only the good parts of a car. According to some disgruntled buyers, this penchant has turned eBay into an electronic junkyard for dishonest sellers.

Then there is the possibility of bid rigging. A person lists a vehicle on eBay with a reserve then has friends who are eBay members bid up the price. They stay under the reserve to make the vehicle appear as if it is a hot item. This practice has caused many a buyer to pay more than they should have for a vehicle. The only retaliation a buyer has is leaving feedback on the seller. The feedback section is like a report card where eBay members rate each other. Dishonesty usually provokes negative feedback, little consolation for the buyer who has been duped.

Legalities

In a paper written for Brunel Law School in the United Kingdom (UK), Riefa¹⁶ discussed the legal classification of online eBay auctions. The paper uncovers that online eBay auctions cannot always be considered as traditional auctions and that eBay, as an intermediary, is not to be considered as an auctioneer. This creates difficulties associated with a distributive application of consumer protection laws such as the Consumer Protection (Distance Selling)

Regulations of 2000 (UK). Another set of difficulties is associated with a lenient legal regime applicable to the liability of eBay under the Electronic Commerce Directive Regulations of 2002 (UK and European Union). The paper concluded that there is an urgent need to clarify the legal classification of online auctions and to rethink the liability of online auction sites to better protect consumers, a potential problem for eBay.

Are Auctions Dying?

Auctions were once a pillar of e-commerce. People didn't simply shop on eBay. They hunted, they fought, they sweated and they won. These days, however, consumers are less enamoured of the hassle of auctions, preferring to buy items quickly at a fixed price. Sales at Amazon, the leader in online sales of fixed-price goods, rose 37% in the first quarter of 2008. At eBay, where auctions make up 58% of the site's sales, revenue rose 14% in the same period. Car shoppers are not going to spend a lot of time with auctions just to save a little money.¹⁷ Not only do shoppers want convenience, they're also looking for value. And the availability of pricing information online made it easier for consumers to bargain hunt and reduced the need to risk overbidding in an auction. A buyer can figure out the legitimate retail price of an item with just a few mouse clicks.

Solutions

Executives at eBay have gotten the message. Since taking the helm in March 2008, eBay chief executive John Donahue has made it clear that fixed-priced items are the key to future growth. eBay's "Buy It Now" business, where shoppers can purchase items at a set price even when the merchandise is also listed in an auction, makes up 42% of all goods sold on eBay. It is growing at an annual 22% pace, the fastest among eBay's shopping businesses. "As [Web] search has developed, you can get a great deal in a fixed-price format," Donahue said in a 16 April 2008 interview after his first earnings call as eBay's top executive. "We are going to let our buyers choose."¹⁷

Perhaps the best example of eBay's new fixed-price focus is the new fee structure, announced in January 2008. The changes gave breaks to many large vendors who sell fixed-priced goods on the site, while hiking fees for many eBay users who sell using a traditional auction structure. eBay executives say auctions will always have a place on the site. In the future the company does plan to alter fees so that auction sellers don't feel so pinched, though executives have not provided details. The company also intends to showcase additional features that meld auctions and fixed-price listings, possibly in the format of a split screen that shows an auction on one side and the "Buy It Now" price on the other.

At the current pace, Bay will generate more revenue from fixed-price sales than from auctions analysts say. "The bloom is well off the rose with regard to the online-auction thing," says Tim Boyd, an analyst with American Technology Research. "Auctions are losing a ton of share, and fixed price has been gaining pretty steadily."¹⁷

eBay Motors Local Market

To keep up with current trends, eBay has extended its new philosophy into its motors division and has begun to sell used cars locally. The eBay Motors division has started a program called Local Market, offering used cars and trucks to consumers within 100-mile radius of their ZIP code. The program is designed primarily for new vehicle dealers who list 50 or more used vehicles on eBay. It allows sellers to list an unlimited number of vehicles each month for a flat rate. It also encourages direct negotiation of vehicle prices, unlike eBay's traditional bidding environment, and is designed to help dealers sell used mass-market vehicles that might languish in eBay's auction format.¹⁸ Actual fees (see Table 2) may vary depending on the Local Market subscription agreement. Additional features such as formatting are not available.¹⁹

Table 2. eBay Motors' Fee Schedule for Local Market

- 1 to 6 listings: Free
- 7 to 12 listings: \$10.00 each
- 13 or more listings: \$15.00 each
- Monthly subscription: \$1,000.00
- Insertion fee (per VIN): Free
- Successful listing fee: Free

Resources for Buyers

To counteract the dishonest practices of some sellers, eBay has devised a set of services and resources available, some at additional cost, that protect the buyer and help them find a car and verify its condition so that they can buy confidently. There are also services available to assist in the purchase and transportation of the vehicle, all designed to make the experience of purchasing a vehicle on eBay an easy and pleasant one.

The eBay website offers a vehicle buyer the following services:

- **Vehicle Purchase Protection:** eBay Motors offers up to \$50,000 in free fraud protection for all eligible transactions.
- **Vehicle History Report:** Users can learn about a potential purchase using a vehicle history report from AutoCheck.
- **Vehicle Inspection:** Users can arrange a 150-point vehicle inspection through SGS Automotive.
- **Seller Condition Assurance:** This seal ensures the vehicle's condition is accurately described by the seller, and protects the buyer if it's different (available at additional cost to the seller).
- **eBay Motors Security Center:** Encourages a safer eBay experience by educating users about scams and fraudulent activities.
- **Financing Center:** Users can estimate costs of financing a vehicle and get partnered with financing companies.
- **How to buy a vehicle:** Users can get step-by-step instructions on how to buy a vehicle on eBay Motors.

- PayPal for Deposits: Recommends that buyers use PayPal to place a deposit on the vehicle.
- Shipping Center: Reviews options available to ship or pick up the vehicle. Get personalized shipping quotes or look into flying to pick it up.
- Roadside Assistance: Help get the collectible car purchased home safely with roadside assistance tailored to the needs of collector cars. (19)

Conclusion

Does the model work? It must because eBay Motors has sold over two million passenger vehicles in the U.S.²⁰ eBay has essentially guaranteed itself revenue from the sale of vehicles by investing in the competition, basically insuring its place in the value chain. eBay is a company that closely follows trends set by its users and then modifies and adapts itself to these trends, thereby staying on top of its customers wants and needs. With that kind of sensitivity to the marketplace coupled with the financial strength of a Fortune 500 company, eBay and its product divisions are here to stay.

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