

THE WALL STREET JOURNAL

SEPTEMBER 13, 2004

Taking on eBay

Competitors aren't about to unseat the Web's broadest online bazaar. But they're finding plenty of success by thinking more narrowly.

By NICK WINGFIELD

IN ONLINE AUCTIONS, there's a long list of companies, including big names like Amazon.com Inc. and Yahoo Inc., that tried to compete directly against eBay Inc. and bombed. But not all eBay rivals are folding up their tents.

In fact, the Web's biggest online bazaar faces surprisingly vibrant competition in key areas, belying a popular perception of eBay as a behemoth that gobbles up most new markets into which it expands. While eBay's posi-

tion as the broadest of all online marketplaces -- where individuals can sell everything from used trumpets to Toyotas -- appears to be relatively secure for now, some smaller companies have been able to find success in specialty online marketplaces like automobiles and event tickets.

"eBay has a wonderful business, but you can't be everything to everyone," says Eric H. Baker, president of StubHub Inc., which competes with eBay as a middleman for the sale of tickets to sporting events, concerts and other events.

Entrenched Competitors

StubHub seems to be holding its own against eBay. The closely held San Francisco company opened four years ago and has gradually built a following among individuals who want to buy tickets to Broadway shows, Dave Matthews concerts and Oakland Raiders games, as well as sellers who want to unload their seats for those and other events.

In early August, eBay's site had almost 50,000 event ticket listings, while StubHub says it has more than double that amount. In different terms, eBay had 17 ticket list-

ings to an early September concert in Chicago by country-western star Kenny Chesney and 248 ticket listings for the U.S. Open tennis tournament. StubHub had 56 and 369 listings, respectively, for those events.

StubHub says its sellers, many of whom are professional ticket brokers, list more tickets than sellers on eBay because StubHub charges fees only if tickets are actually sold, while eBay charges a fee to list items. StubHub charges sellers 15% and buyers 10% of the final value of the tickets; eBay takes a fee only from sellers, including a listing fee of 30 cents to \$4.80



eBay, Interrupted

Despite little competition in the broad online-auction market, eBay faces vibrant challenges in a number of specific categories, including the following:

EVENT TICKETS StubHub.com says it's thriving with a site that auctions tickets for everything from New York Jets football games to Christina Aguilera concerts in part by guaranteeing that buyers will receive tickets in time for events?something eBay doesn't do.

AUTOMOBILES AutoTrader.com says it has many more used-car listings than eBay on its classified-vehicle advertising site. The company also says eBay's format, which requires users to make their purchases online, doesn't work well for most car buyers.

REAL ESTATE eBay executives say they've made little progress in real-estate sales. Why? Largely, the multiple-listings service Realtors have relied on for years has proved to be an efficient way to advertise homes through a wide variety of online venues, including Realtors' own sites.

BOOKS, MUSIC, VIDEO Analysts say eBay rival Amazon.com has successfully established itself as an alternative way for individuals and small merchants to sell books, music and videos, three areas where Amazon already has a big following.

and a commission that starts at 5.25% and rises depending on the selling price.

Despite the broader selection of tickets, though, StubHub merchants aren't selling as many tickets as those on eBay. Mr. Baker says StubHub expects to sell "more than \$100 million" of tickets this year on behalf of its sellers, recognizing as revenue about a quarter of that figure, or more than \$25 million. In contrast, eBay says its merchants sold \$338 million of tickets through the site last year. eBay declines to predict merchant sales for this year, and it doesn't give revenue figures for its individual markets.

eBay says the fact that its merchants have higher sales on fewer overall listings than StubHub shows that eBay is a more efficient marketplace.

eBay also faces a challenge in its largest single category by merchant revenue — used cars. The company's offerings are dwarfed by those of an entrenched competitor — AutoTrader.com of Atlanta, majority-owned by media conglomerate Cox Enterprises Inc. eBay has between 30,000 and 40,000 vehicle listings on its site, a fraction of the 2.7 million vehicle listings AutoTrader says it has.

eBay says it isn't fair to compare its listings to AutoTrader's, since auto sellers use eBay to actually sell cars, while AutoTrader's site is mainly a listing service, with most purchases completed offline and outside of AutoTrader's revenue stream.

Chip Perry, AutoTrader's chief executive, estimates the site will have more than \$100 million in revenue this year. eBay doesn't disclose revenue from its automobile business, but people familiar with the matter say revenue from eBay Motors is significantly higher than AutoTrader's revenue. eBay does say merchants' sales on eBay Motors, including those selling vehicle parts, totaled \$2.45 billion in the second quarter of this year.

In general, eBay acknowledges it has Internet rivals that are doing well, but it plays down the threat to its business, saying its most significant competitors typically are in the offline retail world. "Competition is anywhere where a consumer can spend a dollar," says Hani Durzy, an eBay spokesman.

Getting Involved

eBay's online competitors say they're succeeding with sites better tailored to the idiosyncrasies of their particular categories than eBay's one-size-fits-all marketplace. StubHub, for one, might be called eBay-with-a-twist: Individuals can list event tickets for sale for a fixed price or the dynamic price of an auction, just as they can on eBay. And although it facilitates transactions between buyers and sellers, including handling credit-card payments, StubHub, like eBay, never takes possession of the tickets. The similarities more or less end there, though.

Unlike eBay, StubHub doesn't identify sellers, even by their account names, from whom buyers are purchasing tickets. There's no "feedback" on StubHub, the eBay rating system that's crucial to establishing the reputation and reliability of a seller. Instead, StubHub guarantees every ticket transaction on its site. If a buyer never receives tickets to a football game because of a glitch in the mail or a rotten seller who stuffs toilet paper into an envelope instead of tickets, StubHub will try to purchase comparable or better seats to the same event — something eBay doesn't do. If it can't get new tickets for the buyer, StubHub will issue a full refund. (In either case, it charges the seller's credit card.)

StubHub also requires most tickets to be shipped to buyers by two-day Federal Express, and it says it can track all orders as they're delivered to ensure the transaction is moving along smoothly. eBay imposes no shipping requirements on its sellers.

In short, StubHub gets much more deeply involved in transactions on its site than eBay does, something Mr. Baker says is necessary with tickets because they are a perishable commodity. While eBay users may be willing to submit to the lengthy process of disputing the quality of, say, an antique table purchased on the site, ticket buyers are unforgiving if they don't get their seats on time, Mr. Baker says. "eBay works well if it's not a time-sensitive" transaction, he says.

eBay says the proof of its success in tickets is in its merchants' sales in the category and the fact that more of its ticket listings result in sales than on StubHub. "If tickets are listed but not selling" on StubHub as frequently as on eBay, says the company's Mr. Durzy, "is it really that efficient a marketplace?"

In car sales, AutoTrader credits its success to a combination of timing and special sensitivity to the auto market.

The company started a site where car dealers and individuals could list used cars for sale in 1998, giving it a head start before eBay entered the business in a serious way more than a year later.

Although AutoTrader has experimented with auctions, its site is essentially a souped-up version of newspaper classified advertisements: AutoTrader lets car sellers post vehicle photographs and much more detailed descriptions than the short, text-only classifieds found in local papers. Because it has far more car listings than eBay, AutoTrader says, it's easier for car shoppers to find vehicles near them, which it considers a big advantage, because it allows buyers to inspect cars in person.

When a car buyer on eBay wins an auction, he or she is making a commitment to buy the vehicle. eBay buyers can check a car out in person if they happen to be in the seller's area, but eBay believes the majority of car purchases on its site are done sight-unseen.

AutoTrader's Mr. Perry concedes many people have proved willing to buy cars through eBay without seeing them first, but he says most shoppers want to take a vehicle for a spin before buying it. eBay's feedback system doesn't provide enough reassurance to the average car shopper, Mr. Perry argues. "The typical Joe and Suzy car buyer will not put enough faith in an online...rating system to buy sight-unseen," he says. "They will for a camera or collectible."

Moreover, most car sellers, especially dealers, want to be able to cut a deal on site when a shopper pays a visit, rather than waiting days for an online auction to end, Mr. Perry says.

Simon Rothman, global vice president of eBay Motors, disputes the idea that average car buyers won't purchase a car through eBay, pointing to the popularity of Honda Civics and other vehicles on the site that are top sellers offline. eBay Motors is "too big for this to be a niche," he says. "This is a mainstream business."

Long-Term Strength

There are markets, though, where eBay admits it hasn't gotten much traction. Several years ago, the company formed a real-estate category for selling homes and other property. The category hasn't taken off.

The reason, in large part, is that eBay violated one of its own cardinal rules. eBay often says it thrives most in areas where it can make "inefficient markets efficient" -- meaning it can give buyers and sellers a simple way to meet up on a mass scale, where they couldn't easily before.

In residential real estate, though, there was already a reasonably efficient market when eBay entered the category, thanks to multiple-listing services, a computerized system that brokers have long used

to list homes for sale. Multiple-listing services now feed their home listings into many Web sites, including those operated by local real-estate brokers.

Meanwhile, even some of eBay's big-name peers are making some progress against the company in specific areas. Years after it launched a broad auction site that never caught on with sellers, Amazon of Seattle has become a popular place for small merchants and individuals to sell used books, movies and music. Such sales started to take off after Amazon began letting other sellers list their goods on the same Web pages from which Amazon sells new products, allowing independent merchants to capitalize on the huge following Amazon already has among music, book and movie shoppers.

And there could still be long-term threats to eBay's overall franchise. Google Inc., Yahoo and other search engines could eventually challenge eBay's dominance if small businesses, which make up the vast majority of sellers on eBay, decide they can do better by advertising on search engines to draw customers to their own Web sites.

But analysts believe eBay will at least remain in a strong position in those categories where it dominates trading among individuals — including electronics, collectibles and other areas — because it has the largest network of buyers and sellers.

"eBay got the biggest network fastest," says Carrie Johnson, an analyst at Forrester Research, a Cambridge, Mass., market research firm. "Buyers don't want to come somewhere where there isn't a large number of goods."