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School day on eBay

Price is not always the object for eBay shoppers - one of many lessons being learned by researchers studying the fast-growing Internet auction site.

Mike Meyers, Star Tribune

Forget miracle medicines, advanced aeronautics or genetically modified crops. When it comes to business research, the biggest laboratory in the world isn't at Pfizer, General Electric or Monsanto. It's online, at eBay.com, where everyone from university scholars to conventional retailers are carefully studying the auctions of baby pajamas, home board games and other items to better understand consumer behavior.

What makes eBay so fascinating? In part, it's sheer size. In the first three months of this year, the company had 75.4 million active users, up 25 percent from last year. Some \$12.5 billion changed hands through the site, a gain of 18 percent. This year, eBay is poised to surpass \$50 billion in sales.

Even more important, though, is transparency. Target, Best Buy, Wal-Mart and other retailers guard the details of their pricing and transactions like state secrets. But eBay, while protecting its users' personal privacy, sells facts about its auctions to companies that use the information to try to make sense of consumer behavior and tastes, marketing strategies and why one color iPod or a certain style of walking shoe outsells its rivals.

"The sky is the limit for the applications of eBay's data," said Anthony Sukow, CEO of Advanced Economic Research Systems Inc., a Canadian company based in Vancouver.

Sukow's company is part of a cottage industry parsing all manner of information on eBay transactions to academics, big-box retailers, online merchants and an array of others interested in unlocking the secrets of the world's largest auction site.

While consultants are reluctant to share the names of their customers, they offer many examples of how information from eBay has spurred business decisions at other firms.

- A golf equipment chain gathered eBay prices on used golf gear to create a trade-in program.
- A "big box" electronics retailer uses eBay statistics to manage inventories, ordering fewer slow-selling MP3 players or past-their-peak video games after seeing how many hundreds were being unloaded in eBay auctions.
- Even charities are using eBay data to estimate the market value of donated goods.

"We interact with hundreds and hundreds of clients who want to build businesses based on eBay's data set," Sukow said.

Some academics are building careers using the same numbers, generating research articles with arcane titles: "Consumer Surplus in Online Auctions," "Price Formation and its Dynamics in Online Auctions," "Do Consumers Know Their Willingness to Pay? Evidence from eBay Auctions."

Motivation testing ground

For economists, statisticians and psychologists, eBay is a testing ground for examining all manner of questions about human motivation and behavior.

Do people always go for the lowest price they can find? No, more than half the time they pay more.

"We find that buyers neglect cheaper prices once they have started bidding," Ulrike Malmendier and Hanh Ahlee, two Stanford University researchers say in a recent paper. In 51 percent of the auctions for Cashflow 101, a game that, paradoxically, offers lessons in financial management, buyers paid more than the "Buy it Now" price.

Explanation: People often value "winning" more than snaring the lowest price.

"It's about the thrill of the hunt and immersing yourself in the experience," said Wendy Liebmann, president of WSL Strategic Retail, a New York City consulting firm.

"Look at Apple, the iPod, Apple Stores or Starbucks," she said. "People are willing to pay a premium where there's a sense of an emotional connection and club atmosphere. The discount is not essential in a very discount-oriented world."

Abercrombie & Fitch has learned how to give customers a sense of belonging to a club, even though all they have to do to join is walk into the store, said Stan Pohmer, a retail consultant based in Minnetonka.

"It's the hip thing to do," Pohmer said of going to an Abercrombie. "If [young shoppers] go into a Target, they look at the price tag. Price is the last thing they look at when they go into an Abercrombie & Fitch."

Searching for perfect price

Researchers also believe eBay can teach them how better to determine the highest price most people will pay for a product.

"An average price at Best Buy ... doesn't tell you what the consumer is willing to pay," Jank said. Watching eBay can answer that question, offering retailers the prospect of squeezing out more profit when they set prices.

Love Goel, chairman and CEO of Growth Ventures Group, a Minneapolis-based retail investment firm, tells the story of a friend who bought two "overstock" lamps for \$50 at a furniture store. When she got home, the woman decided the lamps weren't what she wanted. But the retailer was a 40-minute drive -- each way -- from her Princeton, N.J., home.

She posted the lamps on eBay and ended up selling them for more than twice what she paid. That led her to call the retailer to ask whether the furniture chain had any more of the lamps. She bought 10 more. All sold on eBay at a steep premium to the store price.

"She cleaned out the retailer's East Coast inventory," Goel said. "The retailer should have done the same, testing the price points."

For some retailers, eBay has become an early warning system that lowers the risks in ordering inventories, said Dean Jutilla, an eBay spokesman. What's in fashion and what's not can be easier to spot in thousands of auctions online than at a store that sells less in a year than eBay sells in a week.

"Is pink selling better than blue or white?" Jutilla said. The answer might prompt merchants to order more of one color than another in an effort to avoid stocks of unsold purses or shoes, he said.

Leibmann at WSL Strategic Retail knows of retailers who look for a second life for products in their stores based on sales patterns on eBay.

A shoe merchant might note eBay demand for a hard-to-get sneaker that most retailers have forsaken as last year's fashion. "If you're a smart retailer, you say, 'Maybe we should find some to sell,'" Leibmann said.

What Bloomberg did for buyers and sellers of stocks and bonds -- offer up-to-the-minute price and sales-volume information -- eBay is doing for savvy retailers, she said.

"eBay has become a wonderful strategic information resource," she said. "You can see where there are leftovers and see the things that go really fast."

eBay's flaws also can spell niche opportunities for rivals.

Goel's Growth Venture Group recently invested in Barterbee.com. That site seeks to exploit a weakness in eBay -- the fuss of setting up a Web sales page and paying listing fees, commission and shipping charges for CDs, DVDs and games that might sell for less than the transaction costs.

By Goel's estimate, 90 percent of used media -- a mountain of CDs, DVDs and games worth \$50 billion -- sits idle on shelves in American homes because they're too hard to sell. The idea of Barterbee.com is to match buyers and sellers who swap their goods for a fee of \$1.

Goel, a onetime executive at Fingerhut, has investments in a dozen companies

with Internet links, and an eye for opportunities informed by carefully studying eBay.

"I have no doubt that, for CDs, DVDs and games, Barterbee will absolutely eat their lunch."

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