



EBAY

A COMPANY STUDY

Things you will learn from this whitepaper:

1. What challenges do resellers face when engaging in EBay operations?
2. What are the current EBay practices?
3. How has EBay become a profitable entity?
4. What are the challenges being faced by those utilizing EBay as an avenue to on-line reselling?

This whitepaper will have special interest to:

1. Attorneys consulting with individuals that operate on-line businesses.
2. Judges presiding over business disputes & litigation cases.
3. Business mediators & arbitrators.
4. Financial & income tax advisors.
5. Those concerned with the valuation of on-line businesses.

Notice & Disclaimer

In a forensic accounting setting, the purpose of an industry analysis is to allow a comparison of the subject company to its industry. This comparison is vital to assess the strengths and weaknesses of the subject company, as well as its industry and company specific risks.

The following study contains a brief, selected analysis of the specified industry. It is based upon a review of current economic statistics, articles in the financial press, reviews found in current business periodicals and information posted on numerous internet sites. It does not purport to be all-inclusive or to contain all of the information which a prospective investor or lender may require. Projections and opinions are based upon information provided by third parties. We make no representations or assurances that this information is complete or accurate. Neither Mark S. Gottlieb, CPA, PC nor any of its officers, employees, or representatives make any representation as to the accuracy of completeness of this report or its contents, nor shall any of the foregoing have any liability resulting from the use of the information contained herein or otherwise supplied.

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AN INDUSTRY STUDY

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Company Overview

The popular online auction site eBay was founded in San Jose, California in September of 1995. Now a \$3 billion company, eBay serves over 181 million registered users in 32 countries. International growth has outpaced domestic growth of late, as eBay has made a concerted push to increase revenue by accelerating international trade within the company system. In addition to owning several classifieds websites, the company has purchased a host of large online companies, including: PayPal, Skype, shopping.com and rent.com. eBay's primary competition is Amazon, which offers extensive auction services. Yahoo and Google also are cited as viable threats to market share.

Person-to-person trading, traditionally conducted through physical forums like garage sales, collectibles shows and flea markets, has been streamlined and globalized by eBay. The company's wholly automated interface supports easy exploration for buyers, while enabling auctioneers to list a sale item within minutes of registering. Items are arranged by category, and sellers are given reliability ratings to promote legitimacy and ease buyer concerns.

Resellers

From within this online person-to-person auction system, a large contingent of individual resellers has evolved. According to a July 2005 survey by ACNielsen, a leading research firm, 724,000 Americans rely on eBay for either their primary or secondary source of income. Apart from these professional resellers, an additional 1.5 million people attested to generating some amount of income by selling merchandise on eBay. For the fiscal year 2005, registered users sold in excess of \$34 billion worth of goods through the website.

Reselling is an attractive and growing niche partly because under current U.S. law, a state cannot collect sales tax from vendors outside of its borders. This makes online purchasing more attractive to buyers, boosts seller revenues and allows for profits in a variety of niche markets where margins would otherwise be prohibitively thin. Reselling also has become an attractive enterprise due to the sheer volume of eBay visitors: on average the website claims over 1.5 billion page views every month, and is the fifteenth most visited website, according to www.MediaMetrix.com.

Operations

Resellers may establish operations in almost any commodity vein, though perishables are generally seen as a difficult proposition. Commodities demonstrating over 10 percent of overall sales via online sources are among the most popular. These include:

- books
- cards and gifts
- computer hardware and software
- consumer electronics
- cosmetics and fragrances
- tickets and travel
- toys and video games



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According to Forrester Research, eBay categories with products purchased by women claim the best growth opportunity in online retailing. In addition to consulting research agencies, many resellers consult eBay itself when considering sales opportunities. Among the website's most popular sections is a forum called "Seller Central", which provides information and advice for entrepreneurs selling products through eBay. Two links of particular interest to resellers are: "What's Hot" (<http://pages.ebay.com/sellercentral/whatshot.html>) and "Category Tips" (<http://pages.ebay.com/sellercentral/sellbycategory.html>).

Once an individual commits to becoming an eBay reseller, the mechanical aspect of business operations commence. Typically, these may be described as:

Purchasing — In making product purchases, resellers typically scour liquidation and closeout websites, looking for items with high profit potential. Individuals may monitor a broad spectrum of websites for days or weeks on end before seizing upon a buying opportunity. Because purchasing often involves a sizeable, one-time payment, these transactions are typically realized via credit card or business check. A purchaser must feel confident that he or she will be able to quickly resell the newly acquired goods, while factoring shipping costs into the business equation.

Storing and Managing Inventory — A key challenge presented to eBay resellers concerns the need for warehousing. While some resellers have ample space to store inventory in their residences, others must acquire an outside storage facility or warehouse space. As shipments are often received en masse, organizing and repacking items usually is necessary to facilitate small-scale order shipments. Inventory management is critical: some resellers keep simple notebook ledgers while others work in software applications like Excel, or more complex database systems. In recent years, auction management tools have become increasingly popular.

Running Auctions — As soon as inventory is inventoried and accessible, resellers typically photograph a representative item and compose its attendant description, which can be duplicated as necessary to accommodate identical auctions. Shipping costs must be calculated; auction parameters set to maximize visibility and bid price. Many fulltime resellers choose to open permanent "eBay Stores", a recent company offering. These virtual stores move merchandise along at a faster pace, often at a higher per-order volume.

Order Filling — Most resellers purchase large quantities of packaging materials, as all shipped products for a particular auction are identical in size. It is then typical to instate an assembly line, or some variety of streamlined protocol for repacking items to send to buyers.

Reseller Advantages

High profit margins — Wholesale purchases typically provide deep discounts to resellers, allowing for sizable profit margins. So long as resellers choose product lines wisely, profit margins are always available.

Consistency — Because most resellers specialize in a particular product or product line, operations tend to be fairly static. The longer a reseller works in a particular field, the more efficient his



or her business becomes. Product listings for large scale auctions need only be created once; this serves to automate operations.

Packing and shipping — While the attendant costs of shipping and receiving merchandise must be considered, the physical act of packing and shipping can be streamlined through bulk purchasing of materials. Resellers quickly learn the optimal way to deal with moving merchandise.

eBay Stores — The advent of the eBay Store allows resellers to list all excess inventory, thereby facilitating the sale of items not on auction at a given time. This eases the reseller burden of running dozens of auctions simultaneously, and affords the opportunity to move greater quantities of merchandise.

Reseller Challenges

Purchasing Risk — Buying items in bulk carries a considerable element of risk, as resellers inevitably fail to turn over 100 percent of inventory for every endeavor. Most resellers finance inventory with personal savings or credit cards, making poor purchasing decisions especially unfortunate. In addition, large wholesale purchases typically offer more goods at lower prices: this increases profit potential, but also augments risk.

Physical Space Issues — For individuals living in small houses or apartments, buying merchandise in bulk may be out of the question. This is especially true for resellers of large items like televisions and other electronic media. Therefore, seeking out affordable storage space becomes an issue for many prospective resellers, and must be factored into overall business expenses.

Management Issues — Because many resellers deal with thousands of pieces of inventory, fluid bookkeeping and inventory management are vital. Resellers must choose which software or accounting system will render the clearest business reports while affording maximum organizational information (i.e. which items have sold, shipped and to whom).

Supply Consistency Issues — At times, resellers with streamlined, profitable operations may suddenly find their wholesale supply of goods exhausted. This forces resellers to move to another commodity, introducing new risk and forcing operational changes.

Outlook

The number of eBay resellers has increased dramatically over the past five years, and this trend is expected to continue. Resellers are attracted to the ease of starting a business, as well as the flexible work hours offered by this entrepreneurial activity. With an established and growing market (eBay adds 120,000 users daily), and the increasingly global nature of internet sales, opportunity appears prevalent. So long as the Federal government does not significantly alter the taxation structure for online sales, and so long as eBay continues to condone (and even solicit) resellers, growth should continue apace.





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