

February 7, 2003

PAGE ONE

Improbably, EBay Emerges As a Giant in Used-Car Sales

The Web Auctioneer Wins Drivers Seeking Deals on Wheels, and Plans for Long Haul

By NICK WINGFIELD and KAREN LUNDEGAARD
Staff Reporters of THE WALL STREET JOURNAL

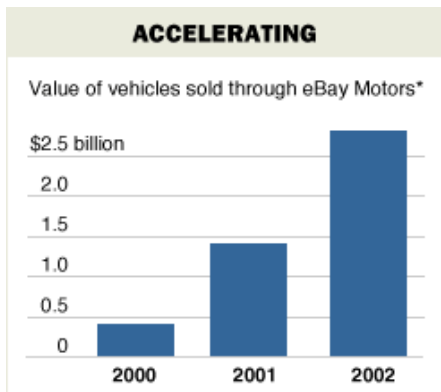
Kris Decker recently paid \$10,080 to buy a 1998 Chevy extended-cab truck, sight unseen, on eBay Inc.'s Internet auction site. He flew 1,100 miles to pick it up from a used-car dealer in Fort Worth, Texas, and then drove it 18 hours back home to Columbus, Ohio.

Even after expenses for airfare and taxes, he figures he saved \$3,000 from what he would have paid for the Chevy at home. "I am a fairly conservative shopper," says Mr. Decker, a 31-year-old operations analyst at a bank. "But, in retrospect, I had more information about this vehicle than if I had gone onto a dealer's lot and started haggling over price."

Most of the big Internet car-sales ventures have fizzled out. The conventional conclusion: You can't sell cars over the Web -- especially used ones. Who would pay thousands of dollars without taking a test drive or at least kicking the tires?

Yet buyers such as Mr. Decker have turned eBay into an unlikely player in the auto market. eBay hosted 300,000 used-vehicle sales last year. That's just a sliver of the estimated 43 million used vehicles sold in the U.S. But in a highly fragmented market, eBay's tally makes it among the largest used-car sellers in the country.

The eBay Motors unit, less than three years old, already accounts for a quarter of the value of goods sold on the entire site. The unit contributed about \$100 million of eBay's total revenue of \$1.2 billion last year, according to people familiar with the matter. Unexpected success in markets such as this has turned eBay into a Web survivor and a Wall Street favorite, with a market valuation of more than \$22 billion.



The company has churned out profits by moving into new categories and confounding critics along the way. The site started with knick-knacks and expanded into everything from clothing to industrial-strength computer servers. While early sellers were individuals, eBay has begun more actively persuading big businesses, including **International Business Machines Corp.** and **Sears Roebuck & Co.**, to sell on the site.

EBay has hit bumps with new businesses in the past,

ONLINE CAR SALES

- [Brave Lovers Go Online for Big-Ticket Purchases](#)⁷
02/05/03
- [The Next Trade](#)⁸
12/10/01
- [Buying a Car Online](#)⁹
11/12/01

MORE ON EBAY

- [Sotheby's Logs Out of eBay Deal](#)¹⁰
02/05/03
- [EBay's 4th-Quarter Income Rose on Surge in Revenue](#)¹¹
01/17/03

COMPANIES

	Dow Jones, Reuters
eBay Inc. (EBAY)	
PRICE	72.46
CHANGE	-0.70
U.S. dollars	11:50 a.m.

* At Market Close

stumbling in high-end art, for instance, and expensive collectibles. But investors are placing a fat premium on eBay shares -- 65 times this year's expected profit -- based on the belief that it will use its huge audience to crack big new markets such as automobiles.

Growing faith in the Internet potential for cars has stirred up new competition. eBay's onetime partner, AutoTrader.com (<http://www.autotrader.com/>¹), is aiming squarely at eBay with a new auto-auction site of its own to entice shoppers trolling for vehicles over the Internet.

eBay is moving into high gear. It has begun recruiting new-car dealers, which are also the largest source of used cars in the U.S. It has hired about a dozen salespeople to work the phones to sell dealers on the notion that eBay has an audience of more than 60 million registered users who may just want a car languishing on their lots. A sales force is a departure for eBay, whose profitability has been aided by low overhead and no inventory. Beginning in March, eBay will invite dealers to regular seminars around the country to pitch the benefits of its program.

Without offering specifics, it clearly is investing more heavily in eBay Motors than in other areas. eBay Chief Executive Meg Whitman calls the auto market "a huge category."

Some auto dealers aren't convinced eBay can offer them much, and the site could remain a niche market at best. "Whether they can overcome the simple, natural challenges represented by a used-car purchase remains to be seen," says Maryann Keller, an auto-industry consultant who once ran the new-car-sales business for **Priceline.com** Inc.



Meg Whitman

eBay is succeeding in the side of the online car market that few people expected to take off. Most auto startups thought new cars, with their guaranteed sameness and manufacturer warranties, were a natural for the Internet. But many states had laws protecting dealers from competition, and auto makers weren't willing to hand out new-car franchises to young dot-commers. Companies such as CarOrder Inc. quickly disappeared, and others from Greenlight.com Inc. to AutoWeb.com Inc. to DriveOff.com Inc. were acquired on the cheap.

Instead, used-car classifieds are emerging as the unlikely survivor. AutoTrader.com, majority owned by Cox Enterprises Inc., has created the largest online classifieds-listing service for automobiles, with 2.2 million used cars. Cars.com (<http://www.cars.com/>²) also focuses on used-car listings. Even services such as Carsdirect.com (<http://www.carsdirect.com/>³) and **Autobytel** Inc., which once focused only on new cars, are also listing used ones.

Scrapes and Quirks

Advertising a used car online has big advantages. Classified car listings in newspapers are usually limited to a few lines of tiny text. Used-car sites are jammed with pictures, making it easier to portray all the scrapes and quirks of a vehicle. There's also a better selection online than in the hodgepodge of local newspapers and auto publications in which dealers usually advertise.

But eBay Motors is going a step further, doing something most Internet companies gave up on years ago. Most sites just advertise used cars or refer a customer to a dealer. Car buyers on eBay actually commit to buying vehicles on the Internet.

eBay Motors was formed almost by accident. Simon Rothman, who was in business development at eBay and later was appointed to run the division, stumbled upon the idea for selling used cars online in 1999. A car nut, he was searching on eBay for toy Ferrari models when he discovered two real Ferraris for sale. A further scan of the site revealed about 200 cars for sale.

What eBay did with Mr. Rothman's discovery illustrates one of the secrets to eBay's growth. The company monitors the trading activity of users for new trends, and then creates dedicated categories for the most promising merchandise. Acting on Mr. Rothman's discovery, eBay in May of 1999 jumpstarted its auto business by acquiring Kruse International, an operator of car shows around the U.S. That brought eBay exposure among fans of the exotic and high-end vehicles that were most popular on the site. eBay created a category dedicated to cars in August of that year, then formed eBay Motors as a separate unit in April of 2000. In the division's first full year in business, users sold \$1.5 billion in cars and parts.

Growth was strong enough that eBay bumped up its fees a year ago. eBay sellers now pay \$40 to list a vehicle for auction, with unlimited pictures and text, as well as an additional \$40 "success fee" if the auction closes with a winning bidder. (Both fees used to be \$25.) The winner has a legally binding obligation under eBay rules to pay the seller and could face legal action for failing to honor the commitment.

On eBay, sellers list everything from old couches to jewelry for sale. They then let other eBay users bid on the items for several days; once a winning bidder pays, the seller ships the goods to the buyer. For most merchandise on the site, eBay generally charges a listing fee between 30 cents and \$3.30, depending on the opening price a seller sets for an auction, and a success fee that starts at 5.25% of the winning bid for an item.

Since it doesn't take any of the cars into inventory, eBay says it doesn't know how many bidders renege on their purchases, though it thinks the number is small. Late last year, eBay sold the Kruse car-show business, as eBay's emphasis shifted more to its online operations and the types of cars on the site became more mainstream. Its top-selling vehicles are the **Ford** F-series pickup, the **Honda** Accord and the BMW 3 series.

Already, eBay is defying some conventional assumptions about car shopping. While used-car purchases usually occur locally, three-quarters of all car sales on eBay involve out-of-state transactions. That's led to a growing business for car-hauling companies such as Dependable Auto Shippers (<http://www.dasautoshippers.com/>⁴), which sees more of its nationwide orders from eBay users. Dependable, based in Mesquite, Texas, charges about \$650 to ship a car from Texas to New York. The company handles more than 75,000 vehicles a year, a "significant" portion on behalf of eBay users, says John Roehll, an executive vice president for Dependable.

eBay users have some advantages over peers who trawl the classifieds or trudge to a local dealership. Sellers often photograph their vehicles in copious detail because dealers who unload lemons through the site risk having their "feedback" -- a permanent rating left by buyers -- tarnished by disappointed customers. Sellers can also ding the feedback of buyers who renege.

Most vehicle purchases on eBay automatically come with protections such as purchase insurance at no extra cost. That covers vehicles that sellers never deliver or that are materially misrepresented, with a pay-out of as much as \$20,000.

This year, eBay faces its first serious competitive test. In January, eBay and Atlanta-based AutoTrader.com ended their 2½-year partnership. Under the arrangement, AutoTrader promoted

eBay Motors on its site in exchange for a share of eBay Motors' revenue. In addition to launching its own site, AutoTrader has a sales force of 350 people who are now marketing it to car dealers.

What's more, AutoTrader designed its new site to exploit what it sees as the great weakness of eBay Motors: the need to commit to a purchase before seeing the vehicle first hand. With AutoTrader's auctions, sellers can offer "conditional" listings that let the winning bidder inspect a vehicle before buying it to ensure it was accurately described by the seller.

Mixed Bag

One thing hasn't changed in used-car buying: Some buyers are happy, some feel they got lemons. Mr. Decker, who bought the 1998 Chevy truck, says the dealer, Lone Wolf Auto, documented all the major dings on the vehicle and even mentioned that the tires were in poor condition. When he saw the truck, there were "no surprises whatsoever," he says.

Paula Gorman wasn't so lucky with her winning bid for a **Volkswagen** Jetta. It was described as "excellent smoke free" on eBay, but that's not what she says she found at DCH Audi Volkswagen Mazda in Maplewood, N.J. The Jetta she went to pick up had smoke marks on the ceiling and burns in the interior, she says. The passenger-side window wouldn't go down and the "check engine" light came on during her test drive, she adds, none of which was in the posted description. Salesman Donald Sperl, who handles all eBay transactions for the Maplewood location, says Ms. Gorman was rather naive, expecting to get an essentially brand-new vehicle for about \$7,500. His other feedback on the site, 24 postings, is full of praise.

"I wouldn't recommend anyone buy a car on eBay without first seeing it, driving it and having it inspected by a mechanic," says Ms. Gorman, who passed on the car.

Some dealers who have tried eBay are disappointed. Michael Tomlin, general manager of Momentum **Audi** in Houston, has listed three or four vehicles, but not one has sold yet because bidders low-balled him on price. An A6 Quattro he listed last week went only as high as \$16,600, roughly \$13,000 less than an Edmunds.com estimate for the Audi model. About 30% of auto listings on eBay close with a winning bid, lower than most categories on eBay, according to estimates by Goldman Sachs Group. eBay expects that figure to rise as it introduces new programs to make shoppers more comfortable bidding on the site.

A few dealers are changing the way they do business. Lone Wolf, which sold Mr. Decker his truck, consists of an office and a covered warehouse where owner Steve Vest stores his vehicles. He has no lot or flags waving in the wind. His business is predominantly on eBay, having sold about 250 cars through the site. Mr. Vest and his brother sold their Ford store in West Texas about a year ago, tired of hassles such as high overhead and incessant haggling with customers. eBay, he says, is "an easier way to make a living."

But eBay needs more dealers to list their vehicles. The company says there's currently more demand among car shoppers on the site than there are cars to go around. Eight users typically bid on a vehicle, twice the overall average for eBay. "We are supply-constrained -- we need more cars," says eBay's Ms. Whitman.

That need brought eBay executives over the weekend to an annual dealer convention in San Francisco to press their case. Franchised dealers, which sell new and used cars, represent the biggest growth opportunity for eBay, accounting for roughly 40% of the used-car market. Franchised dealers are also the only source for certified preowned vehicles, which come with a warranty from the auto maker.

Many dealers are leery of Internet executives promising change. Several years ago at this same convention, the head of CarOrder, the Internet start-up that since has closed its doors, promised to put dealers out on the street as it bought up car lots nationwide and created a virtual car dealership. Tom Acheson, who owns auto stores in Memphis and Birmingham, Ala., vividly recalls the "23-year-old snot-nosed kid [who] sat up on stage with his legs crossed and told us he was going to put us out of business."

That explains why eBay's Ms. Whitman, in a speech before the convention officially began, told dealers that eBay Motors works best for older inventory, vehicles that have been on the lot for 45 days. Those vehicles are tying up cash and will likely be sold for wholesale, so why not try to get slightly more for them on eBay, she asked. The soft-pedal approach appeals to Mr. Acheson. "EBay is coming here now saying, 'Join us, we can provide a service,' " he says.

Write to Nick Wingfield at nick.wingfield@wsj.com⁵ and Karen Lundegaard at karen.lundegaard@wsj.com⁶

URL for this article:

<http://online.wsj.com/article/0,,SB1044579382824657813,00.html>

Hyperlinks in this Article:

- (1) <http://www.autotrader.com/>
- (2) <http://www.cars.com/>
- (3) <http://www.carsdirect.com/>
- (4) <http://www.dasautoshippers.com/>
- (5) <mailto:nick.wingfield@wsj.com>
- (6) <mailto:karen.lundegaard@wsj.com>
- (7) <http://online.wsj.com/article/0,,SB1043708635959680024,00.html>
- (8) <http://online.wsj.com/article/0,,SB1007669191744492000,00.html>
- (9) <http://online.wsj.com/article/0,,SB1005162739933083160,00.html>
- (10) <http://online.wsj.com/article/0,,SB1044392919121506373,00.html>
- (11) <http://online.wsj.com/article/0,,SB1042235857999407864,00.html>

Updated February 7, 2003

Copyright 2003 Dow Jones & Company, Inc. All Rights Reserved

Printing, distribution, and use of this material is governed by your Subscription agreement and Copyright laws.

For information about subscribing go to <http://www.wsj.com>