

# eBay's Dominance in Internet Auctions

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## BACKGROUND OF THE BUSINESS: INTERNET AUCTIONS

*Internet auctions* began in 1995 and have been growing rapidly since. As of May 2001, the estimated total revenue of Internet auctions reaches \$556 million. Since the beginning of Internet auctions, *eBay* has maintained a dominant leading position although the popular attention and the profitability of eBay induced entries of two biggest e-commerce firms, Yahoo!, in October 1998, and Amazon.com, in March 1999. An eBay vice president said in January 2000 that eBay's market share in the Internet auctions market remained at approximately 90% (see Lucking-Reiley, 2000). As of fall 2001, it is believed to be more than 80%.

Internet auction sites such as eBay and *Yahoo!Auctions* acts as listing agents, allowing individual sellers to register their items on their Web sites and running Web-based automatic auctions on their behalf. Actual exchanges including payment and shipment are worked out by the buyer and the seller on their own. The English auctions have been the most dominant format in Internet auctions. However, sellers usually have some control over these Web-based auctions, choosing a set of different parameters for each auction such as the duration days, an opening value, an optional secret reserve price, and so forth.

A variety of goods are auctioned in Internet auctions, but the largest category by far has been the collectibles.

Each Internet auctions site has different categories, and there is usually no one top-level category that includes all the types of collectibles. Between September 27, 2001, and November 1, 2001, 59% of listings on eBay belonged to one of the categories such as antiques and art; collectibles; books, movies, music; coins and stamps; dolls and doll houses; or toys, bean bag plush. During the same time period, 54% of listings of Yahoo!Auctions were included in one of the following categories: antique, art and collectibles; sports cards and memorabilia; toys and games and hobbies; or coins, paper money and stamps.

## DESCRIPTION OF THE BUSINESS: eBay vs. Yahoo!Auctions

Yahoo!Auctions has kept a distant second place in the Internet auctions market although it has offered a little bit more options in *auction mechanisms* and lower *listing fees* compared to the leader, eBay. As shown in Table 1, both sites offer similar auction mechanisms (in terms of auction formats and auction parameters), but Yahoo!Auctions offers an additional option, auto extension, in the closing rule and more flexible duration dates.

Despite similar auction mechanisms between eBay and Yahoo!Auctions, these two sites charge *distinctively different* fees to sellers. During the first 17 weeks of the year 2001, eBay charged two types of basic fees to sellers: insertion fees and final-value fees. The insertion fees of eBay range from \$0.30 to \$3.30, depending on the opening values (called also reserve prices or minimum bid levels), whereas the final value fees are 5% of the final value (called also sale price or closing value) up to \$24.99, 2.5% from \$25.00 up to \$1,000.00, and 1.25% over \$1,000.00. On the other hand, Yahoo!Auctions charges only insertion fees ranging from \$0.20 to \$1.50. As indicated in Table 2, eBay charges higher insertion fees for all the ranges of opening values. A seller can ex ante choose a secret reserve price as well. If the secret reserve price is not met by the close of the auction, the item will not be sold. The fees for the secret reserve price auctions are fully refundable if the item is sold. If an item is not sold, the seller can relist the same item subject to insertion fees. On eBay, the insertion fee for the second listing is refundable if the item is sold in the second round.

Table 1. Auction mechanism

	eBay	Yahoo!Auctions
auction format for a single item	English auction	English auction
proxy-bidding	Optional	Optional
secret reserve price	Optional	Optional
duration (days)	3, 5, 7, or 10	2 - 14
feedback-and-rating	Available	Available
buy it now	Optional	Optional
early close	Optional	Optional
auto extension	Not Available	Optional

Table 2. Listing fees

		eBay	Yahoo!Auctions
<b>Insertion Fees</b>			
Opening Value	\$0.01-\$9.99	\$0.30	\$0.20
	\$10.00-\$24.99	\$0.55	\$0.35
	\$25.00-49.99	\$1.10	\$0.75
	\$50.00-\$199.99	\$2.20	\$1.50
	\$200.00and up	\$3.30	\$1.50
<b>Final-Value Fees</b>			
Closing Value	\$0-\$25	5%	Free
	\$25-\$1000	\$1.25 + 2.5%	Free
	over \$1000	\$25.63 + 1.25%	Free

The basic fees of Internet auctions have not changed frequently. Indeed, Yahoo!Auctions began to charge insertion fees only from the beginning of the year 2001. At the same time, eBay raised its insertion fees a little bit to the levels shown in Table 2. As will be discussed below, these changes of fees had significant impacts on the number of listings on Yahoo!Auctions.

Despite more options in the closing rule and lower listing fees on Yahoo!Auctions, eBay's dominance is evident in terms of both the number of listings and Web site usage. The data employed in the article is unique because it is unusual to obtain the data of the number of listings and Web site usage on any auctions site other than eBay. Our data of the number of listings are obtained from the *Downtown Magazine's Wednesday Report*. The *Downtown Magazine* is an unbound magazine available via the Internet ([www.dtmagazine.com](http://www.dtmagazine.com)) and reports its counts of the number of auction listings updated every Wednesday by noon, Eastern Time. In this counting, eBay listings do not include eBayMotors or Great Collections but include Business Exchanges and UltimateBid Tickets and Experiences, whereas Yahoo!Auctions listings include Yahoo!'s Business Marketplace.

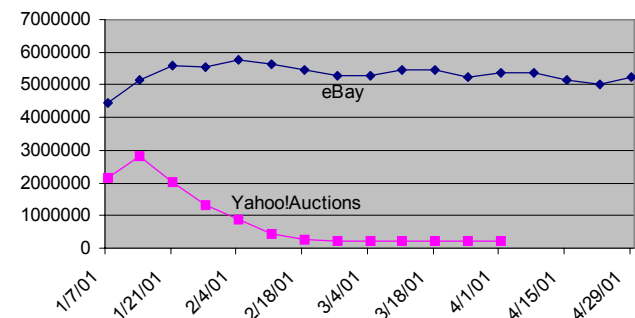
This weekly data of the number of listings for eBay and Yahoo!Auctions were collected from the first week of the year 2001. However, from the second week of April 2001, the Wednesday Report ceased counting the number of weekly listings on Yahoo!Auctions and began to report the number of listings on a monthly basis.

As illustrated in Figure 1, during the first 17 weeks of 2001, the number of listings on eBay remained between 5 million and 5.7 million after an increase in the first week. On the other hand, the initiation of fees on Yahoo!Auctions in the beginning of the year 2001 had a dramatic impact on the listings of Yahoo!Auctions. The number of listings on Yahoo!Auctions declined drastically from more than 2

million to about 250,000 by the seventh week of the year 2001, and then stabilized around 220,000. According to the *Downtown Magazine*, Yahoo!Auctions had highs of 2.5 million listings in mid 2000. In what follows, therefore, our data analysis will focus on the period of the 7<sup>th</sup> week to the 13<sup>th</sup> week (the third week of February to the first week of April) after the changes of the fee schedules were fully absorbed in sellers' listing behavior.

The data of weekly Web site usage (measured by "unique visitors" and "page views") of these two auctions sites are obtained from Nielsen//NetRatings for the first 17 weeks of the year 2001 (except in the first week of March for eBay and the first week of January for Yahoo!Auctions). *Unique visitors* is the estimated number of different individuals who visit a firm's Web site, and *page views* is the number of unique visitors multiplied by the average unique pages viewed per visitor. This usage data from Nielsen//NetRatings is unique in the sense that the weekly usage of Yahoo!Auctions is counted separately from the entire site of Yahoo!. Unlike the number of listings, however, the changes of fees had no substantial effect on Web site usage. As illustrated in Figures 2 and

Figure 1. Listings



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