

Chapter 4.25

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

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

and games and hobbies; or coins, paper money and stamps.

DESCRIPTION OF THE BUSINESS: EBAY VS. HOO!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 clos-

ing 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.

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

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