The Building of the Quintessential American Market: A Brief History of eBay

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Abstract: This paper addresses why and how eBay USA evolved from a loosely organized and minimally structured marketplace, the “perfect market,” into a complex set of institutions governing one of the largest online retail sites in the world. Theoretically, this paper examines how rules of exchange, trust, conceptions of fairness in markets, and social organizations shape market structure and actor participation. Empirical work examines the dynamics of marketplace relations on three levels—between buyers and sellers, between users and eBay, and between eBay and its competitors—and their effect on market structure including the increase in fixed price and new item sales, the size and types of eBay sellers, the number of transactions by type of seller, and the degree to which eBay sellers are existing online or brick & mortar stores. The case of eBay in the United States demonstrates that markets are socially constructed and locally contingent.

Over Labor Day weekend in 1995, Pierre Omidyar set about creating an economist’s dream—the perfect market. The perfect market would use an emerging technology to create a marketplace where individual buyers and sellers would “meet” to exchange goods without outside interference. Omidyar used the expansive network possibilities of the Internet and the auction format to create a real world test case of the prototypical economic model of a market. The marketplace would place all users—buyers and sellers—on an equal footing and should allow for the optimal allocation of resources. Omidyar’s vision stemmed from his Libertarian philosophy and his practical experience working in Silicon Valley. By connecting individuals to individuals, AuctionWeb—the initial name for the site—would not rely on selling from a centralized source. Users would operate on a level playing field with equal access to information on price and product for buyers. Sellers would have an equal opportunity to sell their products regardless of their size or assets. Buyers and sellers would engage in exchange through an auction format that would yield the perfect price—the exact point where supply meets demand.

AuctionWeb, with humble beginnings on Omidyar’s personal website, became eBay, the most popular retail site on the Internet in February 2004 with 72.2 million visitors. Ebay is arguably the most successful business model to emerge from the dot-com boom of the 1990s. It is the model for Web-based commerce, with estimated net revenue of three $3 billion dollars in
Yet, eBay did not remain an unregulated marketplace for individual buyers and sellers meeting anonymously.

Social interactions, market institutions, and social institutions, most notably the communal aspect of the site, played a pivotal role in the success of the company. The emergence of a definition of an ebaysian culture emerged within the company and among users of the site with active community group debates over perceived transgressions. Large retailers such as Best Buy Co. (the largest U.S. electronics retailer), Sears, Roebuck & Co., and Sharper Image use eBay as a venue for selling their products. Producer groups meet in the “real world” to discuss policies and approaches to eBay. Vigilantes scour the site to pick-off false auction items.

The evolution of eBay from its design on a single man’s personal computer into the largest online retailer allows us to examine how market actors interact and make a market. This project has the benefit of lying at the intersection of economic and sociological theory. The case of eBay provides the closest thing to a natural lab for this comparison by examining what existing economic and sociological theories have to say about markets, market structure, pricing, information, and market institutions and using them as critical lenses through which to understand the formation of the eBay marketplace.

EBay’s success relied on solving certain fundamental problems of building a market: reducing uncertainty and risk, minimizing information asymmetries, and ensuring and enforcing property rights. The company also had to define notions of fair competition, what the company and users often refer to as a level playing field. As such, the history of eBay does not present a

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2 Ebay reported revenue of $749 million in 2001. Much of the growth in revenue has come from eBay Motors as well as international expansion. It is expected that half of revenues will come from non-American websites soon.
case about one set of efficient institutions. Market formation was contingent on power relations between actors, national regulatory structures, and national conceptions of markets.

The question that this paper addresses is why and how eBay evolved from a loosely organized and minimally structured marketplace into a complex set of institutions governing one of the largest online retail sites in the world. I use economic and sociological theories about market and market structure as points of inquiry into an empirical case of market development and evolution. By examining market formation as a social process, the sociological approach raises the question of how actors—individuals, organizations, associations, etc.—are constituted in markets. The paper highlights several of the key innovations and debates that have occurred in the company’s short history and four major trends in marketplace evolution—the rapid expansion of the marketplace, the development of new market formats, a shift from a venue for person-to-person auction sales to a platform for small and medium size businesses, and increasing competition in online e-commerce.

I identify three types of relations in particular. First, horizontal relationships between buyers and sellers in a given exchange revolve around many of the issues in the economics literature—trust, uncertainty, and cooperation. Many of these problems can be thought to require technical solutions to guarantee that both parties have confidence in a successful transaction. The perfect market story concerns itself primarily with the dynamics of these types of relationship. Second, vertical relationships between users (primarily sellers) and eBay are critical in shaping market rules, structure, and shaping competition. These vertical relationships involve issues of power and compliance, often coerced through formal or informal rules. Third, eBay’s relationship to its competitors such as Yahoo, Amazon, Overstock.com, and Google strongly influence market structure as well as the vertical and horizontal relationships described above.
All of these competitor sites offer different and emerging models of large online trading platforms for small and medium size businesses. These relationships are influenced as much, if not more, by demands of publicly traded companies to meet shareholder expectations for market growth.

The body of the paper will detail four major trends in the eBay marketplace resulting from the dynamics of the relationships discussed above. First, eBay’s marketplace expanded rapidly as market actors and the company solved certain technical problems including payment, diversification of categories, and initial mechanisms for establishing trust. Ebay is currently the leading e-commerce site in nine out of the top ten largest markets. Second, the development of new market formats, most prominently the “Buy It Now” option and fixed-priced sales, led to a continued increase in market size and shifting market structure away from used items and collectibles. Third, the eBay marketplace shifted from a venue for person-to-person auctions into a platform for small and medium size businesses. This shift was marked by an entirely new seller category of eBay middlemen—drop-off stores, trading assistants—the introduction of eBay storefronts, the growing use of the site by traditional retailers such as Best Buy and Hewlett-Packard, and the formation of sellers groups and trade associations. Fourth, eBay’s success and the growth on e-commerce in general has led to an increasing competition from alternative market formats.

**Rapid Growth and Increasing Social Organization**

The transformations in the eBay marketplace have occurred over a remarkably short amount of time, just over ten years. Current shifts in the marketplace indicate that the site will move further away from its core auction model and closer to that of its online e-commerce retailers—or even brick and mortar stores and malls. Many of the advantages and efficiencies
that do exist—more universal access to information, the shrinking of the geographic limitations
to commerce bringing people together who would not have been in the past—are the result of the
power of the internet less than a particular set of market rules often referred to as the perfect
market.

The growth of the eBay, both domestically, and internationally, has been nothing short of
remarkable. The site currently has an online marketplace in 32 markets and is host to
approximately 192.9 million registered users, 75.4 million of whom are said to have been active
in the past year. eBay is the leading e-commerce site in nine of the top ten markets—Germany,
the United Kingdom, South Korea, Australia, France, Italy, China, Canada, and the USA. As of
its 2004 annual report, eBay claims that more than 430,000 users in the United States make all or
some of their livelihoods through selling on the site. These users exchange over US$34 billion a
year in Gross Market Value (GMV).

Insert Figure 1

Market expansion, increasing complexity, and a rapid growth in formal market rules have
generated the need for elaborate governance structures in addition to increased barriers to entry
for sellers. Jim and Crystal Wells-Miller, the founders of the Online Traders Web Alliance
(OTWA), responded in the following way to a question about the changes in online
merchandizing on eBay:

“We [online merchants] are in a better position when it comes to mainstream acceptance of the
industry as a whole. We have services, tools, programs, and tons of information that can help, a lot
of this did not exist 5 years ago...There is so much going on at any given time that we often fall
victim to information overload. Competition is much fiercer; it is much more difficult to sell now
than in the past. Selling online has become so complicated that it is no longer easy to do. At one
time, the listing form on eBay was one page, and the selling rules were minimal. Auction
management applications and tools are no longer a luxury, but a necessity. Five years ago, you
could start to sell online in a matter of minutes, now the learning curve is so high it takes a major
commitment of time just to get started. Let me elaborate. eBay’s user agreement is about 4,500
words long (7 pages), add another 1,500 words for the fees and credits policy (7 pages), add
another 70-100 pages for the "prohibited and restricted items" policies, another 70-100 pages for
their listing policies, another 5 pages for their outage policy, another 3 for their board policies,
The above passage highlights several transformations. The role of online applications and tools provided by eBay and other services that allow for easier and smoother online transactions in general. Second, the pressure of increasing competition and the need to use new market management tools and services as more and more sellers take advantage of the growing world of e-commerce. Third, the increasing complexity of entering the eBay marketplace as the rules expand.

*eBay as Marketplace and as a Set of Institutions*

Ebay, the website, is an online marketplace that hosts a large number of distinct markets. As such, many of the features on the site and the user agreements comprise a set of institutions that facilitate exchange. EBay, the firm, has actively sought to create new markets (i.e. new categories within eBay) in order to generate more revenue for the company. Consequently, eBay progressed from small individual sellers primarily posting collectibles in an auction format into a marketplace that hosted markets in larger, more expensive items such as cars (eBay Motors) and computers and composed of corporate sellers such as Sun Microsystems, Best Buy, and where more than half of the listings on eBay Motors were posted by professional dealers, and an increasing number of fixed-price sales. A common explanation for eBay’s success is its network advantage. Ebay hosts a large amount of online people-to-people sales; large numbers of sellers provides an incentive for more buyers to use the site which in turn drives additional sellers to market. Ebay must ensure that users—both buyers and sellers—have a positive experience in its marketplace in order to maintain its network advantage. Thus, Meg Whitman, the CEO, has described eBay as “one part company, one part town-hall meeting, and one part entertainment”
The town-hall idea refers to eBay’s attempts to listen, respond to, and police its community of users.

Ebay’s progression provides a good case for understanding how the company and its users constructed the marketplace and its individual markets. Omidyar and Jeff Skoll’s started eBay with a vision of a perfect market where all users existed on a level playing field. As Omidyar said, “I wanted to do something different, to give the individual the power to be a producer as well as a consumer” (Cohen 2002: 7).

There were two other key components to the original formulation of the marketplace. First, Omidyar designed eBay as a community, not just a shopping site. Second, and related, is that Omidyar imagined that by creating a community he could reduce the need for governance structures. The practical reasons for community in the inception of the company were that it made users more self-sufficient and reduced demands on Omidyar’s time. He also had a normative and moral vision of exchange within a community. Omidyar believed in the social contract that people operate according to moral values and that they are basically good and that given a chance to do right, they will. Ebay engaged in a conscious effort to create a certain culture and ethic around interactions on eBay (an eBaysian culture)—the libertarian philosophy of the community itself had to be constructed and cultivated. As Cohen (2002) point outs, the company went to great lengths to cultivate community on it site. In the early days, staffers routinely sounded off on the site's bulletin boards using pseudonyms, even denying that they worked for eBay when asked.

Ebay’s IPO on September 24, 1998 was another critical development in the eBay marketplace. Ebay is a profit making firm intent on expanding sales and profits. The decision to go public amplified this goal and increased the influence of shareholders and stock analysts,
people outside of eBay’s management team and users. Many user groups that complain about changes in eBay cite its shift to a public company as the source of the problem (Cohen 2002). Ebay’s decision to include large firms in the marketplace and the shift from an auction only format to include set prices shows the dynamics of a capitalist firm diversifying its products to survive.

One issue that appears to have remained constant is eBay’s reluctance to act as a governance structure, to insert itself as an arbiter of transactions, although it has clearly done by offering services such as dispute resolution and being the final arbiter of who can use the site. One of the first major innovations in the eBay community was the Feedback Forum, started in February 1996, as a mechanism for enforcing good behavior. Omidyar’s posted a letter on the site to launch Feedback Forum:

“Most people are honest, some people are dishonest. Or deceptive. This is true here, in the newsgroups, in the classifieds, and right next door. It’s a fact of life. But here, those people can’t hide. We’ll drive them away. Protect others from them. This grand hope depends on your active participation. Become a registered user. Use our Feedback Forum. Give praise where it is due; make complaints where appropriate….Deal with others the way you would have them deal with you. Remember that you are usually dealing with individuals, just like yourself. Subject to making mistakes. Well-meaning, but wrong on occasion. That’s just human” (Cohen 2002: 27).

Below is a list of some important innovations and a categorization of where they came from.³ The first category is market solutions where commercial firms make business out of the reduction of risk and uncertainty. Innovations such as PayPal (a secure online method of payment), BuySafe, and SquareTrade, a mediation service endorsed by eBay. Developing and securing a reliable method of online payment was critical to eBay’s growth. The company developed its own proprietary payment system but eventually lost out to PayPal. PayPal was a catalyst for increasing market sales.

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³ The basic categories come from Van Waarden’s (2002) discussion of coordinating principles in markets.
The second category of innovations is governance solutions. In this instance, I refer specifically to coordinating mechanisms that eBay has taken on or introduced and bears the primarily responsibility for enforcing including the Feedback Forum, user agreements and “NARUing,” (declaring an individual “Not a Registered User), and eBay’s dispute resolution options including its Fraud Alert forms. For example, the Feedback Forum was clearly an attempt to introduce reputation effects that allow eBay and users themselves to monitor the behavior of other users. A third category is community solutions devised by informal groups (i.e. a family) where “trust” is an important lubricant. Examples of community solutions include eBay’s Bulletin Board where users help users primarily for technical questions of how to use the site, post items, avoid fraud, etc. and the eBay Café a more community oriented message board.\footnote{The eBay Café was primarily set up to allow a forum for users to interact more “socially.” One could argue that this has had a positive economic impact on exchange because it attracts people to site and potentially increases trust.} Associations, more formal and goal-oriented form of social cooperation (i.e. professional associations; special interest associations: trade associations, trade unions, and consumer organizations) is the fourth category of innovations. There are many associations connect to eBay. Five of the more prominent and influential are the Online Traders Web Alliance (OTWA), AuctionWatch, the Online Auction Users Association, the eBay Professional Sellers Alliance (PESA) and The Auction Guild (TAG).\footnote{Cohen (2002) discusses the origins and primary actors involved in creating these three associations.} TAG, for example, was started by Rosalinda Baldwin, a regular eBay user, to function as a form of trade guild to represent small, weak eBay users. Baldwin argues that buyers and sellers need TAG to counteract eBay’s power. EBay could crush dissent through the staff monitoring of message boards and by throwing people out of community. TAG was one of the primary motivators of the Million Auction March in 2000, an
attempt to move one million auctions off of eBay’s site in protest of perceived abuses of power by the company (Cohen 2002: 257-59).

**Table 1: Categorization of eBay Innovations**

<table>
<thead>
<tr>
<th>Coordination Principle</th>
<th>Nature of Relations</th>
<th>Nature of Relations</th>
<th>Legal Status</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Market, Commercial Services</td>
<td>None or contractual</td>
<td>Private</td>
<td>Private</td>
<td>PayPal, BuySafe, SquareTrade, Buy It Now</td>
</tr>
<tr>
<td>Community</td>
<td>Informal</td>
<td>Horizontal</td>
<td>Private</td>
<td>Ebay Café, Bulletin Board</td>
</tr>
<tr>
<td>Association</td>
<td>Formal</td>
<td>Horizontal</td>
<td>Private</td>
<td>OTWA, TAG, AuctionWatch, Online Auction Users Assoc., PESA</td>
</tr>
<tr>
<td>Governance Structures</td>
<td>Formal</td>
<td>Vertical</td>
<td>Public</td>
<td>User Agreements, Fraud Form, Feedback Forum</td>
</tr>
</tbody>
</table>

Certain decisions appear to be about issues of power and conceptions of fairness—i.e. the proposed separate site for Disney’s, Buy-It-Now feature, the integration of items at fixed cost from Half.com, etc—that were the subject of fierce debate on various message boards including OTWA, TAG, and AuctionWatch. The formation of associations and community groups and the innovations that have occurred as a result are harder to explain with the economics literature. Insights from the sociology of markets provide greater leverage in examining the dynamics of this type of collective action and their role in the formation and stability of a market.

Ebay as a company faces a version of the moral hazard problem because of their desire to have buyers and sellers act in a way that increases trust, traffic, and exchange in marketplace. The Feedback Forum is a means for eBay to induce good behavior as well as allowing buyers and sellers to signal each other. Trading hazards can be reduced by embedding transactions in networks where reputation effects work well (Williamson 1993).6

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6 David Lucking-Reiley demonstrated the effects of the Feedback Forum in his article “Pennies from eBay: The Determinants of Price in Online Auctions.” He showed that negative feedback led to statistically significant lower prices for sellers and that positive feedback had a more minor effect.
But reputation effects have another layer on eBay. An important element of the construction of the eBay marketplace is the creation of identities/reputations and initial users had to earn them over time and often through participation in community sites. Intense debates about the inclusion of other bricks-and-mortar companies on eBay and about how users use the Feedback Forum can be understood as debates about what constitutes fair competition. In the initial formulation of the marketplace all sellers were supposed to equal. The cultivation and development of a reputation (through the Feedback Forum) was viewed as a critical element of being successful. One way for major companies to get noticed online is to offer goods and services through existing sites such as eBay, Yahoo!, Amazon—all of which are becoming large trading platforms for other companies. Some actors, like the big chains, are able to carry their reputations with them from the non-virtual world, but individuals on eBay have to establish their reputations and identities online. The consequences of this debate are not simply about ensuring the reliability and effectiveness of monitoring. These are debates about how the market should be structured; in other words, eBay users are lobbying the company to resist what they perceive to be changes in the rules of the game. A similar argument can be made about discussions between eBay and its users regarding advertising. Initial decisions to allow certain retailers to advertise directly on eBay’s site challenged users’ perceptions of what constituted fair competition. Many users protested to eBay arguing that the advertising would undermine the conception of the market as one in which all sellers were equal.7

New Market Formats: Fixed Price Sales (Buy It Now, Half.com)

As the eBay marketplace has matured (i.e. US, UK, Germany) it looks more like the retail world at large. While the implementation of online payment mechanisms and PayPal in

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7 Interviews with eBay employees have convinced me that the company is extremely sensitive to this issue.
particular can be understood as a technical fix, it was followed closely in importance by the introduction of fixed price sales into the eBay marketplace. A shift in the basis of the business from auction to fixed price sales has sparked a movement towards mainstream retailing.

eBay purchased Half.com, an e-commerce site focussing on fixed price sales in July 2000 and launched the Buy It Now feature in November 2000. Many business sellers did not want to wait for the time of an auction nor deal with the hassles of fluctuating sales prices. The auction only format limited their volume of sales. Adding these two new ways of purchasing items met the requests of small and medium size businesses with large stock. eBay also touted the value of these new features to consumers: “Our acquisition of Half.com in July 2000, and the implementation of our"Buy it Now" fixed price feature on eBay.com, have expanded our marketplace by attracting a new consumer demographic and accelerated the velocity of trading by reducing the length of time between listing an item and completing the transaction” (2000 Annual Report).

Fixed price sales represent a significant and growing share of total sales in the eBay marketplace. Fixed price sales accounted for 34 percent of GMV in the first quarter of 2006. These fixed price sales represented approximately 30 percent of the total payment volume in 2004. However, fixed price items are growing at a more rapid rate compared to auction sales. Gross merchandise sales for fixed price sales grew 106.3 percent in 2003 versus 47.4 percent growth for auctions. In 2004 the growth rates were 50.1 percent and 41.3 percent respectively. The growth rate for both categories is expected to slow considerably in coming years but fixed price sales are expected to continue their more rapid growth. This should be enhanced by the introduction of eBay Express, a new way of sorting through the marketplace for fixed price items only.
The shift in format had two predominant effects on the marketplace. First, it made the marketplace more attractive to large retailers. Second, it made the marketplace better suited to sales of certain items that do gain value from the auction format. The fixed-price format is better suited for sales of CDs, books, and videos—all items that have much bigger markets than collectibles. As one eBay businessman points out, “posting auctions makes sense for collectibles, computers or precious stones. But packing supplies doesn't fit the auction format” (Neubert 2004).

In fact, the collectibles category, one of eBay’s oldest, now accounts for a small percentage of total GMV. Sales of collectibles were hovering close to 5 percent of total GMV in 2003 and 2004, below that of Computers, Consumer Electronics, Books/Movies/Music, and falling behind Clothing and Accessories all of which were swamped by the surprising success of eBay Motors (Figure 8). And although growing, the Collectibles category is doing so at a slower rate than most others. EBay estimates that growth in Collectibles will soon fall below 10 percent (Figure 9).

The change in market formats has also heralded different relationships between eBay the company and different categories of users. EBay market rules and innovations have tended to favor growing market sectors. The company, by its own admission, tends to measure everything and make decisions that benefit the market as a whole. Thus, the sectors that represented much of the core eBay market at its inception such as collectibles, are not as influential. In fact, many longtime PowerSellers are frustrated with company officials for distorting what they see as fundamental informal market rules: “They [eBay] used to have a real willingness to listen to the
community and make changes. Now it seems like they care less about the community and more about just making a profit. They care more about people selling big ticket items” (Interview with eBay seller, June 2005).

**Figure 10: Format Innovation**

**The Shift from Person-to-Person Sales to a Trading Platform for Businesses**

The historical notion of eBay being strictly a consumer-to-consumer platform is somewhat anachronistic. You have hundreds of thousands of folks on there now that make their living on eBay. (Scott Kessler, equity analyst with Standard & Poor’s in New York).

The face of the typical eBay seller has morphed from the individual collector selling part of his/her collection or clearing unwanted items out of the garage into that of small and medium sized businesses that can leverage economies of scale, invest in advertising, provide insurance, warranties, and other guarantees. The new market actors arrived with the change in sales format and new tools available for sellers. No longer was eBay the online garage sale of its early days bringing individuals together to exchange goods in a market. eBay’s shift in focus was an intentional effort to increase the size of the market. eBay celebrated this shift in the market, announcing in its 2002 Annual Report that eBay sellers represented “every link in the distribution chain, from large manufacturers and wholesalers, to small businesses and individual merchants (2002 Annual Report).”

Four major trends distinguish the contemporary eBay marketplace from the original conception of the site as a venue for individual, consumer-to-consumer, exchange. First, there are a growing number of eBay middlemen gathering items from individuals and selling them under their own name under consignment. Second, there is a trend toward online storefronts with eBay encouraging its own version through its eBay Stores program. Third, traditional retailers have occupied a large space in the marketplace. Fourth, groups of sellers and trade associations
have formed in order to lobby eBay for various rule changes or other special privileges. Combined, these businesses sell the vast majority of goods in the marketplace. Approximately 90 percent of eBay registered users are solely or primarily buyers (Tedeschi 2004).

One of the hallmarks of the mature eBay market is the emergence of middlemen. These businesses are referred to Trading Assistants (TAs) on eBay. eBay launched its TA program in February 2002 in order to increase the number of goods for sale. Trading Assistants operate as online consignment stores; they list and sell items for others on eBay for a commission or fee. Over 34,000 individuals and businesses were registered with eBay in 2004. They usually offer technical experience in researching an item’s fair value, photography, marketing/descriptive copy listing, payment, shipping, etc. Essentially they try to leverage their eBay seller status and reputation and ease and convenience of use. eBay has created standards of conduct and behavior for TAs such as maintaining a 97% or better feedback rating.

Drop-off stores are an extension of eBay's trading-assistants program. These stores, the largest of whom have franchised, represent a substantial and growing part of the eBay seller community. The dropoff industry generated close to $14 million in sales in 2004 (Tedeschi 2004). While this total may seem small in comparison to eBay’s overall GMV, the sales are part of a rapidly growing and well-organized collection of sellers. As one drop-off employee told me, “I have worked for a variety of franchise industries, including many fast food chains. This is by the far the easiest sell and fastest growing industry that I have been a part of” (Interview, ISoldIt employee, 2005).

There are essentially four major players in the drop-off store industry: Auction Drop, I-SoldIt, QuikDrop International, and Snappy Auctions. Auction Drop, started in March 2003, operates through 3,800 UPS locations around the United States. I-SoldIt has 900 stores under
contract including seven in Canada and one in Ireland after beginning operations in December 2003 with plans for over 3,000 stores across the country. They also claim to be the highest individual volume seller on eBay. QuickDrop International boasts 102 U.S. locations, five in the United Kingdom, and one in China. Although in operation the longest, Snappy Auctions has a more modest 55 stores.

The purported advantages of established eBay businesses appear to be more than just rhetoric. Randy Adams, CEO of AuctionDrop, cites a 90 percent success rate for closing an auction compared with 43 percent for the average auction. ISoldIt’s Elise Wetzel also claims to have a 90 percent success rate. Research about the importance of reputation effects, marketing, and the use of eBay features (i.e. additional photos, featured listings, eBay’s kew words program) is somewhat ambiguous it does appear to have a positive effect on final sales price (Lucking-Reilly 2000, Bajari and Hortaçsu 2004, Vishwanath 2003, 2004). TAs also have the ability to offer discount shipping, warranties, easy to use return policies or to be accredited as bonded sellers, etc. The ability to provide this type of guarantees seems to supercede reputation effects (Kashkooli, working paper). The significance of this shift in the market is not just that individuals might find it easier to use TAs, but that the barriers to entry of selling online are high enough, and that these middlemen are able to compete on a different playing field.

Larger sellers including drop-off stores have additional benefits besides their ability to coordinate, streamline marketing materials, and have additional resources to use market tools. Typically, drop-off businesses will also exploit the eBay Shop service, which offers any serious trader his or her own dedicated Web address, and allows buyers to search each seller's own "shop" for listings.
The eBay stores launched program launched in 2004 and, as with the many aspects of the market, has grown rapidly. (Figure 11). At the end of Q1-06, eBay hosted approximately 486,000 stores worldwide, with approximately 247,000 stores hosted on the US site. EBay argues that sellers that use these stores gain substantial advantages.

Insert Figure 12

Figure 12 is an example from eBay’s own marketing tools demonstrating the advantages of operating a storefront. Storefront users pay eBay a fee, of course, for the right to operate. EBay staff excitedly unveiled an array of new features to the eBay stores program at their 10th anniversary celebration including an escalating package of services with correspondingly escalating fees.

The last category of business courted by eBay is larger manufacturers and retailers such as IBM, Motorola, Disney, Best Buy and many others. These larger businesses use the site as a storefront or to drive traffic to their offline stores. Sales from these stores accounted for about 5 percent of eBay's sales in 2005. Of course, large sellers desire other benefits, such as volume discounts, like the kind offered by Amazon.

Officially, eBay claims that it tries to treat all sellers equally. "We demand that dropoff locations follow the same rules that every other trader follows," says Hani Durzy, eBay spokesman. "That they're open, honest, communicative, and that they ship fast." However, eBay actively trains and supports TAs through its TA Program and eBay employees have been involved in some of the training for various franchisees. From the companies perspective, increasing the number of sellers on the site will increase the number of buyers, which in turn increases the number of sellers in a virtuous cycle.
Many of these sellers are convinced that, as their sales climb, eBay will need to respond more to their needs: "You can't ignore people who have volume," says Ken Sully, CEO of iSold It. "When you start to become a bigger player, of course you're going to get looked at a little differently" (Smith 2005).

**Competing for Sellers**

Of course, large, well-known businesses and growing franchises are not the only groups pushing eBay for changes in the marketplace that meet their selling needs. Other groups of sellers, particularly the most successful, have formed trade associations to deal with the growth of the market and the difficulty of gaining influence as a business generating a relatively small amount of business. Jim and Crystal Wells-Miller describe the change as follows:

> Not even close, at one time even the individual voice could be heard. However, with so many voices coming at the decision-makers, it becomes too difficult for any one seller to affect change. Even as a "community of users" the voice often becomes diluted to the point of ineffectiveness. I believe this can change though, the key to solving this problem within the industry is focus. Rather than a muddle of voices all weighing in on different issues, I believe that any group can affect change, but only by focusing on a single issue, and seeing it though to its final resolution. (Interview on Auction Bytes, July 25, 2004)

The type of market activism and social movement type vision described above does not fit neatly into the story of the perfect market. The sociology of markets suggests that economic actors form political coalitions, constantly lobby for governance, seek to define a conception of control, and that laws and accepted practices will often reflect the interests of most organized groups in the market (Fligstein 1996). Coalitions, such as PESA, OTWA, and TAG have clearly and repeatedly lobbied eBay to impose, retain, and remove certain governance structures.

The Professional eBay Sellers Alliance (PESA) is an example of one such group. PESA is a non-profit trade association comprised of 600 high-volume eBay sellers representing a wide variety of goods and services. PESA members generate over 70 million eBay transactions each
year totaling over $1 billion in annual eBay GMV. While it is difficult to identify any specific rule changes directly influenced by PESA, they have certainly gained eBay’s ear. At the eBay Live! In 2005, the 10th anniversary celebration of the company, PESA was accorded its own after party and reception at the end of the second day, and they enjoy considerable access to key eBay category managers and top executives. They are also slowly working out and defining key goals. 

PESA is a forum for members to exchange innovative and creative ideas and business solutions for the purposes of leveraging strategic or technological influence with online selling platforms; perpetuating the professional education of members; developing benefits for members through pooled purchasing influence; increasing exposure, trading volume, and profitability of members; and representing a collective voice to the market, the industry, media, and policymakers.” (PESA mission statement, the emphasis is mine).

The above passage highlights both PESA’s expressed intent to lobby eBay and politicians at various levels and its efforts to gain competitive advantages through means not readily available to individuals and smaller sellers.

The above discussion about the organization of trade associations and their ability to influence eBay is not meant to imply that eBay turns a deaf ear to the broader eBay community nor that debates between groups of sellers do not exist. For example, there was a heated debate about eBay’s initial decision to allow Disney to have a separate site that did not link to the Disney collectibles on the main site. Ebay and Disney ultimately backed down. These issues matter to the extent that they have economic impacts. In the case of Disney’s separate site and advertising that competed directly with eBay users, ultimately the communities outrage convinced the company as a firm not to take certain actions that could be considered in their rational interests.

PESA and other medium and large businesses that operate on eBay are a critical part of eBay’s success. Their ability to influence changes in the marketplace are enhanced by an increasing ability to develop online stores outside of eBay, use other online venues such as
Amazon or Overstock.com, or purchase advertising hits via search engines such as Yahoo and Google.

Figures 13-16 are from a 2005 eBay report to stock analysts trumpeting its competitive advantage in relation to its competitors. The metrics shown are less interesting for their specific details than they are as a clear demonstration that eBay is keenly aware of and influenced by the fast changing world of e-commerce and internet services in general.

From the beginning, eBay has trumpeted its the presence of a level playing field for all sellers. The company often invokes the idea that eBay is in partnership with the community. In a twist on the famous quote that “What’s good for GM is good for the country,” eBay states that what is good for the seller community is good for eBay (admittedly with a stronger ring of truth). The diversification of the seller community, driven in large part by changes in market format, has made this alliance and symmetry less stable. The growing market share held by large sellers, competition from other internet companies, and pressure from investors, is increasingly threatening this core eBay value (or, at the very least, forcing the company to adjust what they mean by it).

The issue of a level playing field and the eBay community as a unified group with shared objectives came to the fore at a meeting exclusively for Power Sellers at eBay Live! 2005. Four top eBay executives sat at the front of the room providing open access to its accomplished sellers. As the question and answer session began, the first question galvanized the crowd:

Seller: You always talk about working together as a community...that we are not in competition. And yet, half of this conference has been about introducing new features for sellers that pit us against each other. If you really believe that your success if based on ours and that we should work together, why don't you device systems that help everyone and not just those who are willing to pay?

EBay executive: Well, we track our metrics very carefully. So we feel that the additional features that we offer to sellers at a fee return a greater value in the final sales price. Our policy is that a
new feature should return at least three times its value to the seller. Also, these features are optional.

Seller: That’s bullshit. The features are not optional. They are mandatory if I want…if sellers want to compete.

This exchange catalyzed an hour longer exchange between frustrated sellers and the executives at the front of the room. It highlights the growing tension and diversity of interests that eBay confronts in changing market rules and adding new market features and formats.

Conclusion

EBay’s success has frequently been characterized as the real work manifestation of a perfect market. Its unique character, devoted community of buyers and sellers, and breaking down of many barriers to entry into market exchange brought it to the attention of market analysts, journalists, and academics. And, to be sure, the market still retains much of its original charm. Recently, one long suffering sports fan, Chad Carroll, auctioned off his 25-year loyalty to the Kansas City Royals Major League Baseball franchise on eBay for $278.47. The minor league Kansas City T-Bones and Yahoo were outbid by a group of his friends at the last second for the rights to Carroll's sports allegiance. The winning bidder’s purchased one of those priceless items for which eBay stills provides a unique venue: the right to purchase Carroll's new favorite team.

However, I argue that Carroll’s undoubtedly cathartic use of the eBay marketplace is an increasingly rare occurrence in the eBay marketplace. EBay’s decision to promote small and medium size businesses, the accomodation of large retailers, and the addition of fixed-price sales shows the dynamics of a capitalist firm diversifying its products to survive. Solving the institutional and technical problems of trust and payment are different from problems of heterogeneity of producers and consumers. The dynamics of the three types of relationships
discussed in this paper suggest that the idea of a perfect market does not represent everyone’s interests. Perfect remarks remain more the domain of academic dreams than market realities.

Appendix: Figures 1-16
References


