

**DEUTSCHE BANK**

**Moderator: Jeetil Patel**  
**February 6, 2008**  
**12:00 pm CT**

Operator: Good afternoon. My name is (Carmen) and I will be your conference operator today. At this time I would like to welcome everyone to the Impact of eBay Recent Changes and Perspectives on the Internet Merchants Association Conference Call.

All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star and the number 1 on your telephone keypad.

If you would like to withdraw your question, press the pound key. Thank you Mr. Patel, you may begin your conference.

Jeetil Patel: Yes, thanks (Carmen). Welcome everyone. Thanks for joining us on this call. I'm Jeetil Patel, analyst here at Deutsche Bank Securities to dive a little deeper into the eBay changes that were recently announced about a week ago as well as just some overall themes related to eBay. As well as just overall channels in management and kind of e-commerce strategies as a broad perspective as well.

I'm actually joined by a couple folks here from the Internet Merchants Association. For those of you that may not be familiar with the IMA, they have approximately 200 members that focus primarily on e-commerce on their Web site, on eBay, through Google as well as Amazon out there. And I think it's going to be important to here what some of these folks have to say about some of the changes and other issues around the eBay market place.

Joining me are Steve Grossberg, President of the IMA and they're pretty large seller on eBay alone also; as well as Ben Mandell, Vice-President of the IMA. And Ben, I think you've had quite an extensive experience selling on eBay and, you know, still do. So I think it's going to be great to hear both of your perspectives on different issues as related to the company.

We're going to go about 30 to 40 minutes on the overall presentation and open up to Q&A. If you guys – if anyone on the line has a question and would like to email it, you can email it to me at [jeetil.patel@db.com](mailto:jeetil.patel@db.com) or just simply queue up and we'll be – I think we'll take questions at the end here.

But we're going to break it down in a couple of key segments here. I guess to kick it off we're going to focus on the seller conference that was there last week out on the East Coast. And Steve – and then I believe you both were in attendance.

First of all welcome. I guess, you know, is there, you know, I guess – can you talk about first of all, the overall feedback and perspective of sellers? How do they feel about the conference in general and the take-aways? And then we'll get into a little bit more deeper – just deeper issues as we move ahead.

Steve Grossberg: Yes. Hi, this is Steve Grossberg from IMA. Want to thank Jeetil for having us on the call and we're pleased to go into this. I just wanted to start off by telling the listeners they can visit our Web site at [imamerchant.org](http://imamerchant.org). And in a few weeks from now we are hosting our annual e-commerce conference and there's going to be a host of eBay management in attendance there. As well as folks from Google and Amazon and a host of other e-commerce companies. And (Stephanie Poleneus) who is the new Senior VP over at eBay North America will be delivering the key note speech. So it should be quite interesting.

As far as the changes; as you know, there has been many changes introduced by eBay last week. Specifically fees and feedback are – appears to be the big one. And we can go into talking about the fees a little bit.

We had some concern because eBay's had – eBay has had issues for years. And eBay's take rate seems to be quite high in many areas and that has caused these issues. And I believe eBay is acknowledging they've had issues and problems; hence, this why they came out with these radical and drastic changes last week.

However, with that said, we truly believe that while we applaud eBay for making these changes and acknowledging that they have issues on the site that need to be addressed – and this is the first time I believe that eBay has ever really done anything about it – we also believe that they are misinterpreting their own data. And that these changes will not be successful.

Jeetil Patel: Steve, I mean, we ran some numbers ourselves here relating to just the different pricing bands, you know, final value fees and listing fees. But, you know, I guess of the end IMA or broadly the folks in attendance I guess, can you talk about, you know, how – what percentage of sellers do you think are

seeing an increase in fees as a result of this, decrease in fees and also no change in fees, you know, as you looked at, you know, as you've spoken to IMA members or folks in attendance out at the conference.

Steve Grossberg: Okay, well the best we could tell it appears about 1/3 of our members are going to see a fee increase. A third of our members will see a fee decrease and the balance – about 24% - will be revenue neutral.

Okay, so really this was not a – when you look at the fees there was not a radical change that - and the stimulus that eBay needed to get this site back on track. We believe they needed to have a sweeping and broad fee decrease across the board and all they did was reshuffle fees. Okay, it's like shuffling the cards and they come out differently but at the end it's the same 52 cards. And that's not going to solve their problems here.

Ben Mandell: And the other thing too, from our point of view is they have rewarded sellers that weren't doing such a good job as far as sell-through with this fee structure. And the ones that actually had 100% sell-through or close to 100% sell-through, those are the ones that are really getting a major price increase.

Jeetil Patel: Do you think it's specific to a cat – different categories or do you think it's specific to different ASP bands? If you look at that 1/3 increasing, 1/3 decreasing and, you know, 24% revenue...

Ben Mandell: Well you have to remember that most sells on eBay are in the \$40 to \$42 range. So anything that they change in other category does not have a material effect because most of the sales are in that \$40 to \$42 range.

Steve Grossberg: Yes, and under.

Ben Mandell: And under. That's correct. So what happens is well, sure, if I sell a \$100 item and you give me a discount off of an already inflated price that I can't make money on to start with, it really doesn't do me any good to have the discount at the \$100 range. And that's what they've done here.

Steve Grossberg: If I may add onto that Jeetil, because we've dissected the numbers as well here. And when we're talking about percent of sellers, we don't really want to focus in on that area. We want to focus in on percent of transactions. Okay? Percent of GMV.

Jeetil Patel: Yes.

Steve Grossberg: The transactional volume in sellers being engaged, I think here, is the more important measurement to look at. So when you look at who got fee release, they are making up a much less percentage of the total eBay transactions. eBay has hit most of the high transaction volume sellers with a fee increase which in our minds mean buyers will become less engaged in the site because seller are going to have no choice but to pull back.

Ben Mandell: I think that's a fair statement.

Jeetil Patel: So, I mean, if you – just to go back to that quick point. But if you look at the percentage of volume, how would you break up the 1/3, 1/3, 24 against the volume base?

Ben Mandell: Well based on what we...

Jeetil Patel: ...a majority that are seeing a price increase at that point?

Ben Mandell: Let's just to specialize...Guys, there's some specialized sellers that are on eBay in the high volume category that did see a fee decrease. And those sellers are folks that were using the Gallery option which up to this point has been 35 cents.

Jeetil Patel: Yes,

Ben Mandell: All right and there's a large shoe seller that had to use the Gallery item – or Gallery option because he sells shoes. Well in his particular case, he sells a lot of shoes and does thousands of listings a day. He's going to save 35 cents on each listing that he puts up there each day. So if he's got 1,000 listings, you can see how the numbers start to add up.

Jeetil Patel: Yes.

Ben Mandell: But he's the exception to the rule in the high volume category. Most of the high volume folks didn't use the Gallery because the Gallery costs 35 cents. And you could basically could list something else for either 40 cents or 60 cents and they – the high volume folks said, "Well, I'd rather have another listing for 40 or 60 cents than put 35 cents as an extra fee on a listing that I already have."

Steve Grossberg: And what it comes down to Jeetil, if you look at it and you look at the guys who did the high transaction volume - such as books, music, video, video games and also the guys who are doing the true 99 cent reserve model – those guys got hit with a wicked fee increase. These are the guys that are bringing the buyers to engage on eBay on a daily and weekly basis.

Okay, now if you look at, for instance, a \$15 or \$14 ASP item. Somebody who had a 17% sell-through only who was not doing a great job got hit with a

4.3% increase - and the reason why I said that is those sellers are not using Gallery cause when they had a 16.7% increase Gallery on the old system would've cost them about 15% of GMV just to put a photo up of their add

Jeetil Patel: Yes.

Steve Grossberg: They couldn't afford it, they couldn't sell the item on the site. eBay wants to come back and say, "Gallery is free." Gallery is not free. They hit the sellers in this category in the back end with that huge whopping fee increase in the back end of their fees.

Ben Mandell: In effect, what they're doing is forcing everybody to pay for Gallery now. That's what they're...

Steve Grossberg: You know, right now lower tier - which is bringing in the high transaction volume. So now, if we look at the same \$14 ASP item where the seller had a - remember it was a 4.3% increase if he had a 17% sell-through...

Jeetil Patel: Yes.

Steve Grossberg: If you double that sell through to 33%, he got hit with a 13.4% increase.

Jeetil Patel: So it's actually affecting the better sellers, the larger volume sellers. I mean, basically the power sellers more so than the marginal seller that's there for...

Ben Mandell: Absolutely.

Steve Grossberg: And the seller who's bringing buyers to engage in the site, that has a better sell-through ratio. If they had a 50% sell-through, they're getting hit with a 20% fee increase. All that's going to do is push these people on to other sites

– mainly Amazon. And eBay already drove the good sellers to Amazon two years ago. Hence, Amazon is experiencing hyper growth in those categories.

Jeetil Patel: So basically you have a slew of high volume sellers that are seeing increases where all the volume is and you figure that's where buyers are interacting, right? You have massive purchase frequency. If I read a book, I'm done within a week or a month and I'm coming back for more.

Well, if you're now conceding this category or willing to raise rates and drive that business out of eBay, then you're going to lose just going to by retention the ability to bring them back constantly every month or every quarter to transact more frequently.

Steve Grossberg: Exactly. And, I mean, I don't think this is rocket science and I, you know, we certainly don't need a whole lot of schooling to figure this out. Look at some of the best and brightest retailers such as Best Buy and Wal-Mart.

Jeetil Patel: Yes.

Steve Grossberg: Every Tuesday new DVDs come out. These guys advertise them, they sell them out at a low cost. Why? To get consumers engaged in coming in their store on a weekly basis. Okay, because those consumers engage and buy other items in the store. Okay, what eBay is doing is driving buyers away to engage in other sites.

Ben Mandell: And we haven't been able to have DVDs – new release DVDs – sold on eBay in years because it just costs too much to sell them. There's not enough marked up in them to pay the eBay fees.

Steve Grossberg: So we don't understand why eBay wouldn't drastically lower fees in these type of categories to get buyers to engage more instead of doing the complete opposite. And that's why we feel that they are misinterpreting their own data here. Because that would be the right thing to do. Because where does the new buying experience happen on eBay?

Well they're certainly not coming on eBay and buying \$2,500 flat panel TVs in their first buying experience. They're usually going to start on a lower ASP item, those items didn't have Gallery. They are forcing that transaction volume off of eBay and scaring away the buyers more.

Ben Mandell: And think about this. If you walked into a large store and all of a sudden a lot of your merchandise that used to be there is no longer there. And now you've got to go somewhere else to get it.

Jeetil Patel: Yes.

Ben Mandell: It's a pretty good chance that you're going to go to the one place that has all of it instead of making two trips or three trips.

Jeetil Patel: So basically the Trojan Horse – which is the low ASP, high volume categories at eBay – they're basically raising rates to drive it out.

Steve Grossberg: Yes, and let's touch on the 99 cent no reserve guys.

Jeetil Patel: Yes.

Steve Grossberg: Because these are also a lot of eBay as well...

Jeetil Patel: I think before you get into that, I mean, I know – I understand the dynamics of the 99 cent no reserve model and what’s been happening. But I guess, can you talk about, you know, what – as you describe it can you just give us a sense of what it looked like maybe three to four years ago when, you know, 99 cent no reserve really worked effectively and seems to have lost its legs, you know, each and every year? But I guess, as you jump into that in more detail can you describe what’s been happening, you know, over the last couple years in that...

Ben Mandell: I can talk about that a little bit. Okay. It use to be on eBay in the late ‘90s early 2000s you could put an item up for 99 cents and it would close at a price that was the value of it. And that’s what eBay really wanted you to do. Start the auctions at 99 cents, let them roll and they’d close at a market value. That’s back when people really bid on the site.

And that business has been declining as people get wise as to how to actually shop on eBay and snipe and not get into bidding wars and things like that. But there are a few of those guys that have still been around that have done a wonderful job.

One of them is a large seller that sells CDs on – 1 cent CDs on eBay. And he’s got a following and he puts up 1,000 listings a day and there are a bunch of CDs and he starts them all at a penny basically. And lets them roll and that’s just his business model and he’s been quite successful with it.

And there’s another - one that’s in our group that sells movie posters and he starts everything at 99 cents and lets it roll and some of these movie posters sell for – depending on how rare they are – sell for \$200 or \$300.

So those are the guys that we actually talk to at the conference and those particular guys are going – one of them has said he's forced off of eBay at this point. The other guy has indicated that his fees are going up to the point where now eBay is making a lot more in fees that he makes.

Steve Grossberg: And let's frame this a little bit more, Ben. And the fact that these 99 cent no reserve sellers – and I did some quick numbers – if it's a guy who didn't use Gallery - because most of them don't – because they're working on ultra thin margins. Hence, that's why they were able to survive with this 99 cent no reserve model because a bunch of their stuff they're selling they actually lose money on. Okay, but they're getting customers to engage in eBay on a daily basis because they're looking for bargains and scouring the site, you know, for bargains. And I think everybody understands that analogy there.

Anyway, these guys got hit – if they sold – if they're selling \$100 ASP items – they're getting hit with a 23% increase. If they're selling \$200 ASP items – which we have sellers who do that – used PDAs and Blackberrys and the like – they're getting hit with a 18% fee increase.

Okay, we are estimating – this is coming out to dollars per sale. Okay, when you look at the dollars per sale and these guys were listing anywhere from 3,000 to 10,000 items a week on the site, eBay just took away 25 to 50% of this merchant's gross profit.

Okay, so they're either going to force these guys to go off the site or – and that means less buyers engaging in the eBay site cause these people are bringing them buyers – or eBay becomes a much more seasonal business where they start focusing on other channels and stop selling on eBay 365 days a year like they used to. And just come back during the high season when the ASPs are a little bit higher, such as Christmas.

Jeetil Patel: So in the case of those folks that use the 99 cent or penny no reserve models, you know, what type of fee hike are you guys seeing or hearing from those individuals?

Ben Mandell: I've talked to a number of folks and their fees are going up by thousands of dollars a month. I mean, \$3 to \$6,000 a month is what I'm hearing. And the question that I ask on this is, "Are your – if your fees are going up \$3 to \$6,000 a month and that's what you're paying eBay, what are you getting for this?" And the answer was, "Absolutely nothing. I'm not getting higher ASPs, I'm not getting higher sell-throughs. I'm strictly paying eBay more fees."

Jeetil Patel: But, I mean, switching subjects, but, I mean, the DSR should allow you to get a better fee discount. And I guess I'm curious...

Ben Mandell: Well, this is another – this is smoke and mirrors – this DSR discount. Because I asked – there were 200 top sellers, the 200 very top sellers at eBay were at that conference. And I asked the question in front of John Donahoe and the whole eBay executive team during the question-and-answer session – and I wanted to know how many of the 200 sellers in that room which are the top sellers – had DSRs of 4.8 or above on all four categories because that's what it takes to get the discount. And ten of them raised their hand.

Steve Grossberg: And Jeetil, like Ben said, it's smoke and mirrors and I – and as I said earlier in the call – you don't want to focus on percent of sellers. eBay wants us to focus on percent of sellers, I want to focus on transaction volume. We're estimating that 1 to 2% of the transactions conducted on eBay have this 4.8 DSR or better.

Jeetil Patel: Yes, and...

Steve Grossberg: The number of sellers is totally irrelevant and I would caution people not to focus on that number.

Jeetil Patel: And just, you know, describe DSR as detail seller rating. It's made up of four key elements of the eBay kind of scoring model around sellers. And, you know, I guess can you guys talk about exactly what are...

Ben Mandell: All right, let's talk – also, first of all it's important to realize that the offer of the discount is 15% off of the listing fees only. It's not all the other fees you pay on eBay. So first of all...

Jeetil Patel: Sorry Ben...

Steve Grossberg: ...fees. It is that.

Jeetil Patel: I'm sorry.

Ben Mandell: Is it?

Steve Grossberg: Fifteen percent of the final value fees, not the listing fees.

Ben Mandell: Okay, 15% of the final value fees, not the listing fees. But it's not any other optional services that you buy. It's not your entire eBay fee bill. And that's important to realize that, that translates into a discount on your total overall bill of somewhere around – we're thinking – 6%.

Steve Grossberg: Well if you go back Jeetil, I had written a piece on this back in September '07 and it's on the IMA site on our blog. There's a link to our blog and it's called,

“Looking at eBay’s detailed seller ratings – I am concerned.” So I brought this to the forefront back in September.

Specifically, I talked about the shipping and handling DSRs and if I can dive into it for a second. At the time, I analyzed the top 100 sellers in eBay USA who were actively selling on the site. At that time, only – the average score of the top 100 sellers by transaction volume – okay, because that’s what concerns me is transaction volume – they scored a 4.1 on shipping and handling. Okay?

There was only 44% of them scored a 4.5 or better so that means 56% of the top 100 sellers are not going to be in the Power Seller program any longer – based on eBay’s new rule.

The third thing is only one of those top 100 sellers qualified for the 15% discount. Now it’s funny because if you look at 4.5 or better – eBay’s new power seller requirement – item as described 99% of the top 100 sellers are in there. Communication 93%, shipping time 81%. But shipping fee was 44%.

eBay should not even have shipping fee in there cause it’s the only one of the four DSRs that the buyer knows with 100% certainty what those costs are up front. It was clearly communicated and even John Donahoe’s coming out and saying, “Buyers have remorse after the fact about what they paid for shipping and handling.”

So I’m going to call it Big Brother or the government. You know, we all know that government doesn’t do things well, that de-regulated industries are the best industries.

Jeetil Patel: Yes.

Steve Grossberg: Well eBay cannot regulate it and they need to stay out of it. And by trying to regulate it – as we've seen in the past with any other government agency who tries to regulate things – they have a tendency on screwing things up.

Ben Mandell: Okay, and keep in mind also that according to eBay's own data, shipping and handling is not the number one complaint on eBay.

Jeetil Patel: What is then?

Ben Mandell: The number one complaint on eBay is delivery time. And they focus nothing on delivery time whatsoever. And I can tell you, our members shine on delivery time.

Jeetil Patel: Yes. And so – but the biggest waiting is placed on shipping and handling charges which is...

Ben Mandell: Which is...

Jeetil Patel: No, no...

Ben Mandell: You cannot solve that. I mean, it's one of those things – it's like taxes. Nobody likes them but you can't solve it.

Steve Grossberg: And it comes down to...

Jeetil Patel: Well you called it based on the fees that eBay charges its sellers.

Steve Grossberg: Well and that's a huge part of it. But what it comes down to, what we'd like to see it replaced is would you buy from the seller again.

Jeetil Patel: Yes,

Steve Grossberg: Which would work better for sellers and it would work better for eBay. Why do you want to - why does eBay want to go market that 56% of their sellers – of their top sellers are not power sellers.

Plus let's talk about the discounts they gave us for a minute. If – I'll look at my personal numbers. If I was to try to get mine up to a 4.8, the bonus that eBay is offering me comes out to 19 cents per item. So as a business person, that tells me if I strive to earn eBay's 4.8 and get a discount, I want to lower my shipping and handling somewhat less than the bonus they're offering me. So let's say I split it with them and I said I'm going to lower my shipping and handling a dime. That will have no effect on raising my DSRs and it will ultimately serve just to lose me money.

Jeetil Patel: Yep.

Steve Grossberg: So...

Ben Mandell: It also...

Steve Grossberg: ...it tells me to look at their own economics. This is not enough of a carrot to incent sellers to strive to get there. And sellers need to look at their own economics and run their business the way they need to run their business. Again without interference or regulation.

Ben Mandell: And also you have to keep in mind that our sellers that give free shipping – which should translate to 05 only get a 4.7 on DSRs.

Jeetil Patel: That's strange.

Ben Mandell: So even if they give the shipping for free, you're still at 4.7 which is below the rate that it takes to get the discount.

Jeetil Patel: Sounds like that's the wrong waiting that they have in the system. But, you know, I guess if you're at about a 4. – I think you talked about a 4.4 on average – what do you think happens now as you go forward with this new DSR rating? And I guess one of the other big themes out of this was it seems like sellers cannot rate buyers but buyers can rate sellers.

Ben Mandell: And this is going to be a disaster.

Jeetil Patel: Okay.

Ben Mandell: Okay, you're looking now at the point – what they've done is they are taking away the seller's ability to leave negative feedback on a buyer. But buyers can leave negative feedback on sellers. And so there's no repercussions at all for a buyer to do that. Even if he's totally 100% satisfied he can write that he's not satisfied and that's the end of it.

And my prediction is that we're going to end up with about a 20% negative feedback ratio on eBay. You're going to see red ink, red ink everywhere.

Jeetil Patel: So you're basically going to see an average of 4.4 go to at least 4 if not lower?

Ben Mandell: If not lower. And I think when people start to see all of these negatives start to come out of the woodwork – buyers especially – they're going to be scared like you've never seen before. And right now they get upset over just 2% negative. And when this expands to 20% - and everybody's going, "Why in

the world are you saying 20%? Where are you getting this from?" And where I'm getting this from is I'm looking at the CSI Index ratings for the largest chains in the country. And the best department store in the country, the best rating – and that comes from Kohl's - ...

Jeetil Patel: Yes.

Ben Mandell: They've got an 80% Customer Satisfaction Index. That means 20% of the people that go in there aren't happy. And Costco, which we think is a phenomenal company, they have a 79 which means 21% are not happy.

Jeetil Patel: Yes.

Ben Mandell: All right. I don't see how in the world eBay is going to do better than Costco or Kohl's – on the CSI Index. It's just not going to happen. But they're trying to get there.

Jeetil Patel: And already it appears as though buyers are buying fewer items per buyer already. Or in the world of retail that would be referred to as comps for sales. But if the comps for sales are negative on eBay already and you're going to start to see the feedback deteriorate further – let's say 80% or less -...

Ben Mandell: Or less is right.

Jeetil Patel: Wouldn't that actually put greater strain on the buyer's interest or just overall ability or interest level in purchasing from eBay?

Ben Mandell: Absolutely. When you come in there you'll see all these negatives as a buyer goes, I don't want to deal with those guys. They got too many negatives.

Steve Grossberg: And if we look back for a minute and we go back to the beginning, what we're saying is, it's good that eBay has recognized that a change is needed and radical change is needed.

Jeetil Patel: Yes.

Steve Grossberg: But I think we're pointing out here in our opinions, clearly they are misinterpreting the data and not making the right changes that are needed to fix the site. Our hope is now what appears that the management team that John has put in place is intent on fixing it.

And it seems a little less political even though all big companies are political in nature and were hoping – our hope is that they're listening – which it appears they are – and are ready to make additional changes on a moment's notice. And we sincerely, you know, hope – we're cautiously optimistic that is the case because we are convinced that these are the wrong changes to make.

Jeetil Patel: Well certainly the question of would you buy from this seller again seems to be a very logical question to ask at the very least. And it's almost like a very kind of consulting asked question of, you know, would you recommend this company to, you know, to your friends as a reference to purchase from.

Steve Grossberg: Absolutely.

Jeetil Patel: And, you know, the same idea I think speak volumes to, you know, a particular seller and the quality of that particular seller, you know, and the customer service.

Steve Grossberg: Right, I mean, let's face it, those 20% who are rating Kohl's negatively...

Jeetil Patel: Yes,

Steve Grossberg: I guarantee a large percentage of those people may come back in the store – for one reason or another. So really that says it all...

Ben Mandell: What if those 20% were out in front of Kohl's picketing that they had a bad experience in Kohl's? How would that effect Kohl's business?

Jeetil Patel: Probably wouldn't keep people there.

Ben Mandell: And that's what happening with this system that eBay's put together.

Jeetil Patel: So know lets – I'm going to switch a bit, the subject a bit more here. But, you know, non-paying bidder which kind of ties into kind of the buyer-seller feedback mechanism coupled with the buyer's side equation in general.

But, you know, non-paying bidder – we've thought about it as a 7% hit, i.e. potentially 7% of all transactions don't even get paid for from a payment standpoint despite the fact that sellers do get charged for it from a commission standpoint.

I think Steve, you had mentioned something on the order of 6% and I guess I wanted to elaborate on that in particular. I guess, can you describe, you know, what is – what do you think the non-paying bidder rate runs at today? And I guess, where, you know, what can you do to improve it or what can eBay do to improve it that you see in the business?

Steve Grossberg: Well...

Ben Mandell: There's two rates there that he needs to cover and I'll let him do it but I just want to say there's the rate that eBay admits to and then there's the other rate.

Steve Grossberg: The real rate.

Ben Mandell: The real rate.

Steve Grossberg: Okay, but eBay can only admit to what people report. Jeetil, first you have to understand their unpaid item process.

Jeetil Patel: Yes.

Steve Grossberg: Their unpaid item process works, we cannot report an item as unpaid until after minimum seven days. Okay, so at that point we have to start a process and file it on eBay and give the seller a chance to respond as to why they haven't paid. So we have to wait until either A, they responded; or B, they did not respond which is another seven days after we filed the strike. And then we can close it out.

So we're potentially tying up our inventory for 14 days here. Okay, waiting to see if that buyer is going to pay.

Jeetil Patel: Yes.

Ben Mandell: And that's under best circumstances.

Steve Grossberg: Now we are looking at it as when the buyer won the auction or clicked the Buy It Now button which a tremendous amount of eBay's volume is off of Buy It Now or fixed price, they indicated that day they were going to pay.

So now here it comes in a buyer – eBay claims they are going to remove the negative feedback if a buyer does not respond to the unpaid item strike – which again is smoke and mirrors. Because I can tell you that 99% of the buyers plus answer the unpaid items strike and the usual response you get is a little check box they check on eBay that says, “Buyer indicates they will pay for this item.”

Well as a seller, I immediately close out that strike and file it as a strike unpaid because 8 days ago or 14 days ago or whenever when they actually bought the item...

Jeetil Patel: Yes.

Steve Grossberg: ...they indicated to me they were going to pay. And at this point either it's paid or it's not paid. The excuse – you know, and I might have some personal feelings but I'm running a business. So I keep my personal feelings aside that their kid's leg got amputated and the million - litany of excuses that you hear from eBay buyers. So you just close it out.

But anyway, we're equating it that this also – eBay does not have enough skin in the game here and we're equating it to a \$100 million plus that eBay is making off these non-paying bidders which is a tremendous amount of eBay gross profit are coming from the non-paying bidders.

Ben Mandell: Also I want to point out too, the way Steve is closing out his non-paying bidders is about the fastest way that you can close them out. I know when we were selling on eBay we didn't them close them out nearly that fast. If they told us they were going to pay we basically gave them another seven days to pay – and did that. And a lot of them did and a lot of them didn't. So...

Steve Grossberg: What the problem with Ben's way is it becomes a manual task.

Ben Mandell: That's right.

Steve Grossberg: A highlight of sellers cannot do it that way. And you have to understand the process when a buyer responds to a non-paid item strike thing – console, if I was not to either A, close it out because it wasn't paid; or B, close it out because it was paid, I would then have to monitor those manually. I cannot automate that with any software cause eBay will not allow us the third party providers to automate it with software. So then it will become a manual task where I would have to monitor tens of thousands of items I sell in a month which I'm not willing to do.

Ben Mandell: Yes, he's absolutely correct. But that's where...

Steve Grossberg: Either they're paid or they're not paid.

Jeetil Patel: So clearly there is an inventory carrying costs that you are having to absorb tying up the inventory – the opportunity costs of inventory as well. But, I mean, I guess when you take a step back and look at the selling commissions you pay eBay, what percentage of those selling commissions do you think are pay – you are paying them as a result of non-paying bidders?

Steve Grossberg: Okay, again commissions and final value fees, that is refundable on a non-paid item.

Jeetil Patel: Yes.

Steve Grossberg: The listing fees are not refundable and again, eBay likes to have smoke and mirrors and say, well the seller can relist the item and if it sells the second time around we'll give them relisting fee credit.

Jeetil Patel: Yes.

Steve Grossberg: Well let's look at this. Like when you look at my categories for instance. The average sell through rate – you know, you're looking at about 30%. So in essence only 30% of the listing fees are going to be reimbursable – 70% are not. Because we know that 70% of these items or maybe less will not sell in the first time around.

Jeetil Patel: Right.

Steve Grossberg: So again it's smoke and mirrors. eBay need to give us number one, 100% credit on all those non-paying bidders because they're the ones who brought them to the site and didn't verify them. We are at the point where we're saying eBay needs to collect payments on behalf of sellers. Just like every other site in the Internet works.

Ben Mandell: But we believe they can actually save a significant amount of money and a significant amount of employees by actually collecting the payments themselves.

Jeetil Patel: Sounds like a dicey situation given the amount of revenue at stake here or the amount of business they're collecting on those fees...

Steve Grossberg: Well on the same token, is money coming back to them Jeetil, because right now when you have – you get your eBay bill let's say on the 31 of the month,

let's look at January 31 – the seller will have until the end of the last day of the following month to pay that bill.

By eBay collecting payments on behalf of sellers they reduce that float, okay, and they're getting their payment immediately.

Jeetil Patel: Yes.

Steve Grossberg: Okay, so there's going to be a lot of money coming back to them. Also there will be a lot of money coming back because in our minds PayPal would be the payment and automatic credit card processor if a buyer wanted to use a credit card – PayPal will become the automatic payment processor for credit card. All of that non-paying bidder money will come back, it will eliminate all the non-paying bidders. Okay, it will eliminate the inventory tie-up to sellers and...

Ben Mandell: And it's going to eliminate a great deal of trust and safety's department.

Steve Grossberg: So when you look at eBay's issues, the issues are the high seller fees – which we discussed. Okay, the trust in the market place is a huge issue both on the buyer and seller side. And the only way to get this trust issue under control we believe is to collect payments on behalf of sellers. That eliminates 99% of the trust factor problem.

Jeetil Patel: Yes. Now I know – I think they indicated a while ago that they were going to simplify the checkout process between eBay Buy button and the PayPal Buy button. But do you think it makes sense to go to one unified Buy button when you hit the Buy button on eBay? You all actually instantly hit the Buy button on PayPal and it clears the transaction, the cash is collected and it's done.

Steve Grossberg: Absolutely, just like on Amazon. You're registered on the site and you're credit card information or your PayPal account, whatever you choose to use as your preferred method of payment is registered on the site. Then at that point you should give the buyer the option after they click the Buy button if they want to change their preferred payment method to an alternate. And allow them to have alternate methods associated with their eBay account.

Not a hard thing. Every other online retailer has done it.

Jeetil Patel: Yes.

Steve Grossberg: Okay, so...

Jeetil Patel: The key take away it seems like you're not a layaway plan even though eBay wants you to be one.

Steve Grossberg: No I had a guy last week and he bought an item from me and I filed the UPI and this is a funny story, he said do you mind waiting until I get my tax return check? Okay, well I'm sorry, I can't wait a month or two and put your item on layaway till you get your tax return check.

Jeetil Patel: Right.

Steve Grossberg: Why did you hit the Buy button? Another IMA member just posted, he used my philosophy on closing out these strikes early and not waiting. And he just said he reduced his tied up inventory – where a month ago he had \$20,000 at the end of the month tied up – he reduced that down to \$1,500.

But tied up money and unpaid items seems to be a good thing for eBay.

Jeetil Patel: Yes.

Steve Grossberg: Okay, it's not a good thing for sellers and we have a unique community here where eBay has to win and flourish, sellers have to win and flourish and buyers have to win and flourish. And if there's any combination of those three that don't win and flourish it doesn't work.

Jeetil Patel: Which leads me to my last set of questions. But I guess I'm just trying to do a bit of comparison here. But if you look at eBay first of all, do you think it's a buyer or demand problem, a seller economic problem or a structural problem on eBay?

Ben Mandell: It's a basic structural problem at this point. And that's causing problems for both buyers and sellers.

Jeetil Patel: Do you think that now they've gotten feedback after their power seller event last week the company could lower fees or change fees again or change the feedback DSR system?

Ben Mandell: I'm just disappointed they didn't get it right the first time. I mean, I talked with somebody the night before they announced this and he said, "What do you think?" I said, "Well I've got my fingers crossed but, you know, based on their past experience they have a habit of messing things up." And, you know, they came up the next day and they made it worse than it was.

Jeetil Patel: Do you think they'd change it?

Ben Mandell: You know I don't know if they know what to do?

Steve Grossberg: We don't think that eBay knows, the effect that these – we're convinced of that too. eBay themselves don't know what type of effect this will have happen and are misinterpreting their data. Okay...

Ben Mandell: And they've continuously been misinterpreting their data for a long period of time.

Steve Grossberg: Now we're cautiously optimistic that some changes. But I can tell you one thing. I did have some conversations with some eBay executives after the fees were announced on Tuesday night. I know they are going back and looking at the Media category and they are concerned and we could see some changes forthcoming.

But my question is, number one, why didn't they contact us before and discuss this before – which they had but they didn't go into great detail cause we could have helped them before. And number two, is I haven't heard anything back from eBay in this regard, asking us our opinions directly – a direct call from eBay – on where they may have gone wrong and what they could have done better.

Jeetil Patel: What about the DSR front?

Steve Grossberg: The DSR front? I think somewhere they're getting some bad data and they're convinced that's the way to go. I think that one they're going to have to learn from their own mistakes when Ben's scenario – which I agree with – will most likely play out because the CSI as you mentioned, the Consumer Satisfaction Index - which is done by the University of Michigan - that doesn't lie. And the same economics will play out on eBay as play out in the rest of the world when it comes to retailing.

And, you know, like Ben says, it's going to scare away buyers. So I think they're going to have to learn the lesson the hard way there.

Ben Mandell: Yes, the way I looked at this is they made this tremendous feedback change based upon the negative experiences of less than 1% of the buyers on eBay. So for that miniscule amount that's far less than 1%, they have now basically messed up the entire feedback system for everybody else.

Steve Grossberg: And, you know, going on with saying there eBay made it clear and John Donahoe and Lorrie Norrington did an interview in AuctionBytes. And Lorrie Norrington came out and said as long as sellers are accurately describing their item and they're being very clear on what is being offered to the buyer that they will make sure the buyer and seller both have a vehicle to express satisfaction or dissatisfaction with the transaction in an accurate way.

So if the seller is accurately and clearly describing what they're charging on shipping...

Jeetil Patel: Yes.

Steve Grossberg: ...why should they be able to come back and ding you and later in that interview John Donahoe was quoted as saying, "One of the biggest problems effecting eBay is that the buyers after the fact, have buyer remorse and do not feel good about the shipping and handling." So they're contradicting one other's statement there.

You can't clearly describe what you're offering and then allow somebody to have remorse after the fact and be concerned about because there's no way we can change what we're clearly offering, is there?

Jeetil Patel: That's right, no. So just to switch it up a bit more before we go into Q&A. But eBay, Amazon. A couple of key themes or questions that I've always had are and, you know, we've obviously polled a lot of folks. But what is the selling commission that you hear about on eBay versus Amazon? It seems like Amazon is 15 to 17 from what we gather. And what do you think the overall payment – payouts run relative to the payout to the gross dollars coming in?

Ben Mandell: Well you know Amazon...

Steve Grossberg: First of all, Amazon is not more than 15% anywhere.

Ben Mandell: And that's including payments.

Steve Grossberg: They top out at 15%.

Ben Mandell: That's including payment.

Jeetil Patel: Yes. eBay?

Steve Grossberg: eBay they top out in the 30s.

Jeetil Patel: Okay.

Steve Grossberg: And they just went higher.

Jeetil Patel: And I guess ASPs - we've always thought about eBay having lower ASPs out there than Amazon by a rate of 10 to 15%. What's your take on that number?

Ben Mandell: The fee structure artificially depresses ASPs. And...

Jeetil Patel: What do you think...

Ben Mandell: What do I think what is?

Jeetil Patel: The spread between Amazon and eBay on pricing ASPs.

Ben Mandell: I think it's in the 20 to 25% range.

Jeetil Patel: And that's pure profit if you adjust for obviously costs of goods.

Ben Mandell: Yes.

Jeetil Patel: And then growth rates. I mean, can you talk about maybe listings growth versus transaction growth on eBay? And then Amazon growth, what you're seeing there?

Steve Grossberg: Well the growth – the trend is certainly shifting to Amazon as well as other venues. And what eBay just did here if they don't make more changes before implementation date of February 20...

Jeetil Patel: Yes.

Steve Grossberg: It's just put sellers to go – sellers have always been gravitating towards Amazon and other venues, including their own Web site. Now you're just pushing the sellers more to allocate more their eBay dollars – their advertising budget – and we call eBay an advertising venue – to other venues such as Google AdWords, you know, paying SEO Expert, Pay Per Click management companies, and so on and so forth.

You have to because you just can't be spending 20 to 25% of take rates on eBay. And again, they are in essence managing our Pay Per Click management, SEO and everything for us. Well we could do it much cheaper and more effective ourselves.

I go back to the big government scenario, you know, I gave you. Big Brother cannot manage that as effective as us, not at that costs anyway.

Ben Mandell: Not anymore. They used to but not anymore.

Steve Grossberg: And then, you know, one other thing on that issue, Jeetil. And we talk about and we all look at like right now everybody is concerned and I'm sure you're – the people on this line they know all about this, it hits home. The perceived recession we're in or that is upcoming.

Our government looks to have a stimulus package and put \$6 to \$1,200 checks in people's hands and sometimes more if they have children. This will stimulate the economy because you're putting money in the hands of the people who need it and they will spend it.

eBay needs to provide a stimulus package to the sellers because if we have money in our hands, we'll grow our business. eBay just hit me personally with over a \$30,000 fee increase. I just hired another full-time employee. I was looking to grow my eBay business buy more inventory, expand my product line. Now I have to look at laying off that worker and retracting my eBay business.

Stimulus only works if you go in and it gets into the hands of the majority – not the minority.

Jeetil Patel: They put an over-ride tax on you.

Steve Grossberg: Yes, they taxed us. Okay, and they gave some people tax relief. But again, if you want a stimulus package to stimulate the eBay economy...

Jeetil Patel: Yes.

Steve Grossberg: You need tax relief to the vast majority of the eBay economy.

Ben Mandell: And you have to also remember too, we've lost in the past 18 months, we've lost a lot good top tier sellers based on the prior price increases. And we are now left on eBay with a lot of second and third tier sellers. And that's creating problems with the buying experience also.

This latest stunt that they've pulled here basically is just making it worse. And we're going to lose more and more – the last top tier sellers that we have on eBay, we'll lose them because they simply can't work on a very thin margin. And then once their profit that they had in the sale just go to increase fees, it's just not there.

Jeetil Patel: Well on that note, why don't we open up to questions and we can come and follow up with some final thoughts and questions at the end. But operator, can we poll for questions?

Operator: At this time if you would like to ask a question, please press star then the number 1 on your telephone key pad.

Again, in order to ask a question, please press star and the number 1 on your telephone key pad.

There are no questions...

Steve Grossberg: While we are waiting Jeetil, sorry.

Operator: There are no questions at this time.

Jeetil Patel: Okay. Go ahead Steve.

Steve Grossberg: I was going to say while we where waiting, another problem with this feedback is eBay encourages international cross-border shipping. And I truly believe in that myself. Now I looked at my shipments a couple days ago on eBay and understand that those buyers are going to rate you lower - in our minds - on shipping and handling because it costs more to ship international. And shipping time because you're dealing with international shipments and customs of various different countries.

Well anyway, a few days ago when I looked at my eBay sales, 30% of my items going out were going to international and that represented 15 different countries. Now what kind of control can I have over customs and duties when I'm dealing with 15 different countries in a day on average – and 30% of my shipment?

They are setting us up to fail and we're just sorry that they haven't seen, you know, these things themselves and hopefully they will.

Jeetil Patel: If you, I guess, can you just take a step back and look at the growth rates on eBay versus Amazon, I guess. What do you see – what do you think the spreads are, what do you think the mix of business looks like for a typical seller today between eBay and Amazon? Is it 70/30, is it 60/40, 50/50? Any sort of idea then what are the underlying growth rates between the two?

Ben Mandell: Obviously Amazon is growing and eBay's not here.

Jeetil Patel: Yes.

Ben Mandell: At this point and that's problematic as we – we're able to continuously sell on Amazon and make money doing it. We're not able to do that on eBay. And that's an issue.

Steve Grossberg: And they didn't really pass on – going back to the fee increase. They lowered the fee a nickel. They forced you to buy Gallery with the back end. So there wasn't fee relief on the front end.

But I see it Jeetil, as probably – it's more like right now you're looking at 10 to 15% on their personal Web sites. You're looking at 25 to 30% on Amazon and the balance – you know, 60% or so – 55, 60% eBay.

But that trend has been shifting away from eBay and this is going to accelerate that trend in many areas.

Jeetil Patel: So do you think the – do you envision by say, this time next year. You're probably looking at eBay becoming, you know, 40% of the mix and Amazon and personal Web site becoming far more substantial pieces...

Steve Grossberg: I would think that eBay will be for the first time less than 50% of most seller's businesses, yes. And also remember, the guys with the fee decrease...

Jeetil Patel: Yes.

Steve Grossberg: Whether they see this coming or not, they're going to get hit as well because as those high trends – action volume sellers leave eBay...

Jeetil Patel: Yes.

Steve Grossberg: As we talked about earlier, there's going to be less buyers engaging to buy their product.

Jeetil Patel: Yes.

Steve Grossberg: So their conversion rates are going to go down and hence, their fee increase is going to be evaporated. And then eBay...

Ben Mandell: Also eBay's going to come back to hit them with a fee increase on the next go round.

Steve Grossberg: They're going to have to. They're going to be hit the next go around. I mean, and this is what we've been facing for years and here we go again.

Jeetil Patel: So I know the intended consequence here for eBay was is they wanted, I think, probably because the stated listings that they want to go up based on this fee reduction quote-unquote...

Steve Grossberg: Not going to happen.

Jeetil Patel: So you think it's going down?

Steve Grossberg: Not going to happen.

Ben Mandell: Neutral at best is our best estimate, neutral at best. That's our most optimistic estimate.

Steve Grossberg: I mean, bottom line they decrease each listing by a nickel and they raise the final values fees by dollars. That's the bottom line you can sit here and say it's percentages and this and that. They took a nickel off of each listing and they raised it by dollars.

Jeetil Patel: Yes.

Steve Grossberg: On the backend.

Jeetil Patel: So I guess, you know, as we wrap up this call. I think there's a couple of themes I think stand out for me here which is, you know, certainly eBay is, you know, moving – put a step in the right direction here in trying to make change and improve the economics out there as a whole. However, they seem to have missed the mark somewhat on their kind of fee or pricing strategy here.

And, you know, maybe on the feedback system and the DSR system as well. Sounds like we're probably not done in terms of the changes and tweaks they'll probably make based on, I guess, your conversations you've had. But, you know, I guess at this point, you know, your left with a fee increase unless otherwise stated by the company.

And, you know, it's probably more an issue of the consumer and buyer – they buyer and seller trust in the system. It seems to be getting worse with this type of change as opposed to improving.

Steve Grossberg: Yes, I think that's fair. I think that's a fair statement. But at the end of the day, this will not accomplish what their intended goal and objectives were.

Jeetil Patel: Yes.

Steve Grossberg: And that's to get more listing up, more buyers back to the site. We just can't figure out how this will accomplish any of that.

Jeetil Patel: Yes. Well I guess with that again, thank you Steve and Ben for joining us to talk about some of the changes and I guess some of the broader themes on eBay.

Your conference is March 3 through 5 and I think in Vegas with, you know, again quite a few folks from different companies to talk about their e-commerce strategies as well. So it sounds like it's going to be a pretty good event in general.

I guess we'll see you at least – at the very least out there but we appreciate the time today to, I guess, to hear your overview.

Steve Grossberg: Yes, thank you for having us Jeetil and I know you'll be presenting there as well with a couple other analysts on our Wall Street panel, State of Ecommerce of 2008 and Beyond. So we appreciate that and we're looking forward to seeing you.

Jeetil Patel: Appreciate it. Thank you. Thank you for joining us.

Steve Grossberg: Okay, bye bye.

Operator: This concludes today's conference call. You may now disconnect.

END