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EBay losing allure to some entrepreneurs

By Rachel Konrad, The Associated Press

SAN JOSE, Calif. — With roughly 150 million registered users, eBay ranks among the world's most powerful companies, online or otherwise. It had more than 1.4 billion items listed last year. For every \$100 spent online worldwide, \$14 was spent on eBay. But some say eBay's blockbuster growth has engendered arrogance.



CEO Meg Whitman, shown at a conference June 23 in California, says eBay has "redoubled" efforts to innovate.

Justin Sullivan, Getty Images

Entrepreneurs grumble that executives pander to big-ticket electronics vendors and industrial manufacturers — not the teddy bear enthusiasts and numismatists who were faithful a decade ago, when eBay was founded and enjoyed a kitschy obscurity. They complain about shoddy customer service, including site crashes and anti-fraud software that too often mistakes a legitimate business for a huckster.

Meanwhile, eBay executives are looking for new revenue as growth slows in North America and competition heats up from Amazon, Yahoo, Google and plucky startups. Business experts agree that eBay faces daunting obstacles, such as cracking the nascent Chinese e-commerce market and broadening the audience for PayPal, the online payment division that still does 71% of its transactions through eBay.

"They've made good strides but haven't fully monetized other opportunities," said David Edwards, an analyst at American Technology Research in San Francisco. "The nature of a marketplace is that once you have a critical mass, it tends to stick, and there's not a lot that can unseat it. But that's not to say that eBay doesn't have significant challenges ahead."

Jewelry dealer Michael Jansma used to be one of eBay's biggest cheerleaders. The entrepreneur from Largo, Fla., sells roughly \$250,000 worth of baubles every month on the auction site. But the revenue Jansma gets from eBay has declined over the past year, and in January the company raised fees, denting his profits.

To compensate, he added inventory on his own site, gemaffair.com, which sells about \$60,000 worth of pearls and other luxuries each month. In November, he opened an

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account with Overstock.com, where he sells \$35,000 in merchandise per month. And in February, he began selling on Amazon.com, where sales have more than doubled each month.

"I hope eBay gets the message: People have choices, and if we're not happy we'll look elsewhere," Jansma said. "I hope eBay will rise to the occasion."

eBay foes concede that it would be nearly impossible to eclipse the world's largest online auction company. But that hasn't stopped them from carving out niches where they perceive eBay to be weak.

Take fraud, for example. eBay maintains that less than one-hundredth of 1% of all listings are fraudulent, but scammers target high-priced items such as plasma TVs, and some victims have lost thousands of dollars. Although eBay's fraud-detection software alerts internal investigators of suspicious listings, executives say it's impossible to police a site receiving as many as 2,000 new listings per second.

By contrast, Chicago-based UBid Inc. verifies addresses and checks bank references for all 3,700 of its sellers. Service representatives place random orders to ensure prompt delivery, said CEO Bob Tomlinson.

"eBay's taking a hands-off approach to fraud that makes some users uncomfortable," Tomlinson said. "We're taking a hands-on approach."

eBay has also gained a reputation as unresponsive to complaints, a company that acts like an unregulated monopoly and only recently has extended an olive branch.

In mid-January, eBay warned sellers in a terse e-mail that the monthly fee to operate an "Basic eBay Store" would increase from \$9.95 to \$15.95, and standard listing fees would double, to 40 cents. Sellers peppered eBay executives with angry mail, forcing the company to reduce some fees.

eBay CEO Meg Whitman acknowledges that some of eBay's user relationships have been difficult. But the company, which routinely flies in buyers and sellers for focus groups, has "redoubled" efforts to be innovative, she said.

"Sometimes it's a little bit like being a politician," Whitman said. "We have work to do in understanding our users' sentiments."

Bill Cobb, president of eBay North America, said the company would try to mollify disgruntled sellers with a new rule. If a winning bid comes from someone who has no intention of paying, the seller's rating will not suffer in eBay's "feedback" feature. Sellers often complain of too many fake bidders, particularly on cultural zeitgeist items. For example, in November, a grilled cheese sandwich purportedly depicting the Virgin Mary sold for \$28,000, but only after the posting received 1.7 million hits and several astronomical fake bids were eliminated.

Such changes are a departure from the original mission of eBay founder Pierre Omidyar — to create a site that would act as an intermediary between buyers and sellers, devoid of oversight or bureaucracy.

"Pierre never in effect wanted customer support because the marketplace was supposed to work everything out," Cobb said. "But when you scale to 150 million members, you have to account for the margins. Unfortunately you have a very small percentage of people who will try to disrupt the marketplace."

But eBay's contrition may be too late. Salt Lake City-based Overstock.com launched an auction site eight months ago that addresses complaints from eBay sellers partly by

charging roughly one-third of eBay's listing and transaction fees. It has 225,000 listings, from tractors to sneakers.

Holly MacDonald-Korth, senior vice president of Overstock auctions, takes calls directly from sellers. By contrast, eBay only stopped sending automated e-mail responses to sellers in February.

"Larger sellers give us a depth of inventory that we need, but the smaller sellers really give us the flavor," MacDonald-Korth said.

Despite the complaints, eBay still maintains an enviable, passionate user base. More than 10,000 sellers converged in San Jose last week for eBay's 10th anniversary, which ended Saturday with a concert by The B-52s.

Glenna Woolard of Santa Cruz, who sported a temporary eBay tattoo and a woven ponytail in eBay's logo colors, has been a seller since 1999. A stay-at-home mother of four, she hawks items purchased from local estate liquidations, garage sales and industrial auctions, with monthly revenue of \$3,000.

"eBay takes the 9-to-5 world away, so even someone like me can fit into the economy," Woolard said. She hopes to spend next summer collecting items to sell on eBay while driving cross-country in her Fleetwood Bounder, a mobile home she purchased on eBay for \$29,000.

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