

eBay

T W O

Building a Foundation for Your eBay Business

The first step toward growing your eBay business is to build a strong understanding of the drivers of every eBay business, as well as the ability to measure them. Even if you are already very sophisticated at measuring your eBay business, don't skip this chapter, because this book's definitions of various measures may be different from yours. Like the foundation of a house, this chapter introduces ideas we will build on in the rest of the book, so it's important that you become familiar with these foundational concepts.

eBay Listings Terminology

As eBay has grown, many new types of eBay listings have been introduced, which can make it very confusing to discuss basic eBay measurements, because each type of listing can affect the measurement.

For the purposes of this book, there are three major types of listing:

- **Auction listing.** An eBay listing with any kind of bidding component. Note that these listings show up in the eBay search engine. Durations of listings vary from one to ten days.
- **Fixed-price listing.** An eBay listing that is fixed price only: no bidding is allowed. Note that these listings show up in the eBay search engine. Durations of the listings vary from one to ten days.
- **eBay Store listing.** An eBay listing that is fixed price only and is available only in an eBay Store. Note that eBay Store listings do *not* appear in the eBay search engine. Durations of the listings vary from 30 days to “Good 'Til Cancelled” (GTC), which auto-reposts every 30 days.

NOTE

eBay has many exceptions that tend to vary by category. For example, listings in eBay Real Estate and eBay Motors are slightly different. For the purposes of this book, we focus on the core of eBay—that is, those categories based in the United States, excluding eBay Real Estate and eBay Motors.

When auction listings have multiple quantities, they are called *Dutch auctions*. Dutch auction bidders enter a quantity in addition to the amount they are willing to pay per item. At the close of the auction, eBay counts the quantities of the top bidders and awards winner status to the bidders whose quantities are within the total listed by the seller, from highest bid to lowest. The price the items are awarded is the price bid by the lowest bidder.

To make life even more interesting, auction listings can also have a fixed, Buy It Now (BIN) price. A buyer can stop the auction by “BINning” the item immediately, without having to bid or wait for the listing to end.

eBay Fees Refresher

Fees charged by eBay have two basic components: listing fees and final value fees (FVFs).

- 1. Listing fees.** Also known as insertion fees, these are the basic fees charged by eBay. These prices are tiered, based on the starting price of the listing. However, eBay Store listings are offered at a substantially discounted listing fee.
- 2. Final value fees.** The fees charged when an item successfully sells. See Table 2.1.

NOTE

The most important thing to know about listing fees is that they do not guarantee a sale.

You are paying for your item to be on the marketplace *regardless* of whether it sells or not. Thus, if you put too many things on eBay that don't sell, it can dramatically increase your eBay fees. The listing fee structure also benefits you if you start your bidding lower.

Listing fees start at \$0.30 (for items that start in the \$0.01–\$0.99 range) and go up to \$4.80 (for items starting at \$500 and up). There are numerous optional listing fees, such as BIN, highlighting, featured, gallery, bolding, gift icons, and more. Each of these should be considered carefully, because when your business scales, you need to make sure you are getting a good bang for your eBay buck. We will evaluate optional and promotional listing upgrades later in the book.

TABLE 2.1 eBay final value fees

FINAL VALUE OF ITEM	FINAL VALUE FEE
\$0–\$25	5.25% of the final value
\$25–\$1,000	\$1.31 (which is 5.25% of the first \$25) + 2.75% of the final value over \$25
\$1,000 and over	\$1.31 + \$26.81 + 1.5% of the amount over \$1,000

Put another way, when you sell something on eBay, your fees are 5.25% of the first \$25, 2.75% of the next \$975, and 1.5% of the amount over \$1,000.

Reserve auctions also have relatively steep listing fees: that is, 1% for items with a reserve of more than \$200.

For example, assume SellerX lists three items:

NOTE
Note that the eBay FVF schedule motivates you to sell items at a higher average sales price, because the percentage drops at those levels.

1. A CD with a starting price of \$0.01 that sells for \$10
2. A laptop that starts at \$0.01 and sells for \$600
3. A laptop that starts at \$500 and sells for \$600

The eBay fees can be calculated as follows:

ITEM 1

- Listing fee: \$0.30
- FVF: \$0.53 (5.25% × \$10)
- Total fees: \$0.83 (\$0.30 + \$0.53)

ITEM 2

- **Listing fee: \$0.30**
- **FVF: \$17.12 (\$1.31 + \$15.81)**
Note: \$17.12 = \$1.31 + (2.75% × \$575) and remember that \$1.31 is the 5.25% of the first \$25
- **Total fees: \$17.42 (\$0.30 + \$17.12)**

ITEM 3

- **Listing fee: \$4.80**
- **FVF: \$17.12 (same as Item 2)**
- **Total fees: \$21.92 (\$4.80 + \$17.12)**

NOTE

eBay fees are a moving target. This section is meant as an overview only; you should check ebay.com for an exact current eBay fee schedule.

As you will see in later chapters, your eBay fees are one input into your strategy, which is ultimately driven by your business model.

Know Your eBay Business Critical Vital Signs

Whenever you go to a doctor, the nurse checks your health by taking your vital signs, such as temperature, blood pressure, heart rate, and so on. In this section, we introduce the *eBay vital signs* (or eBay vitals). Just as when you go to the doctor, your eBay vitals will help you quickly determine the health of your eBay business. We separate them into two types of vital statistics: critical and noncritical. Your critical vitals are the handful of metrics that quickly give you a picture of your eBay business's health. Your noncritical vitals are important but secondary in nature to the critical vital signs.

At eBay seller gatherings, it's always interesting to hear folks discuss their businesses. Usually sellers share some performance data for the first 10 minutes and then spend the next 50 minutes and more describing how they measure the data. Ultimately, it has been our experience that nearly every seller on eBay measures his or her business differently. Thus, when you try to evaluate eBay businesses, it's like comparing apples and oranges. Sure, they're both fruit, they both have seeds and grow on trees, but those are about the only similarities. Unfortunately, there's no standard eBay business vocabulary or reference guide to help all sellers find themselves on the same page.

To solve this growing problem, this book's goal is to create a set of eBay vitals and a corresponding dictionary to formalize the various terms that are currently not well defined.

Don't panic! Although you will need some math to calculate your eBay vital signs, even mathematically disinclined people should be able to get by with a simple calculator and some patience. On the other hand, if you are a math whiz, then you can take many of the vitals to an entirely different level and look at their rate of change, build spreadsheets for measuring them, and so on.

Gross Merchandise Sales

The first and arguably most important eBay vital is *gross merchandise sales*, or *GMS*. Some eBay sellers call this their eBay revenue, gross sales, top-line, income, and other things. This book uses the term *GMS* because eBay has standardized on the term and reports their own *GMS* to Wall Street. If you think about your eBay business the way eBay thinks about their business, it will help you im-

mentally to speak the same language if you ever find yourself in a discussion with someone from eBay.

Usually, GMS is measured over a period of minimally a week and on a monthly, quarterly, and annual basis.

Take this example: A seller of CDs and DVDs on eBay over the course of January sells 1,000 items for total sales of \$10,000. The seller's GMS is \$10,000 for January. Note that the GMS does not include items that are started (listed) in January and close in February. Those items would be included in the February GMS number. In other words, all GMS is captured in the month the item *sells*. Conversely, in this example, some of the \$10,000 GMS may have been listed in December of the prior year, but it counts in January because that's the month the item was *sold*, not *listed*.

One important variable that can change GMS is your non-paying bidder rate, described in the next section. We define gross GMS as the GMS without taking into account your NPB rate; net GMS does include your NPB rate. Shipping and handling fees, insurance, and any taxes are not considered in GMS.

Non-Paying Bidder Rate

Unlike normal shopping-cart-based e-commerce, on eBay, when a bidder or buyer wins an auction or purchases an item, he is able to pay later, using a variety of payment methods. On eBay, the separation of buying/winning and then paying results in some sales that appear to be sales but are not true sales, because the item was never paid for and never shipped to the buyer. Buyers who do not pay are commonly referred to as *non-paying bidders* (NPBs). Another slang term you may have heard is *deadbeats* or *deadbeat bidders*. At the time of writing, eBay is even considering renaming them as *unpaid items* (UPI).

We'll call the percentage of such transactions on a dollar basis your *NPB rate*. NPB rates range from less than 1% to as high as 20%.

For example: SellerX's GMS is \$10,000 per month. \$200 of the GMS was not paid for over the course of the month. In this example, SellerX has the following vitals:

- **Gross GMS is \$10,000 per month.**
- **NPB rate is 2% (\$200/\$10,000).**
- **Net GMS is \$9,800 per month.**

Immediate Payment and NPB

Although eBay allows you to recover your eBay fees for an NPB, business owners can spend significant amounts of time dealing with NPBs. Also, an NPB causes your inventory to sit longer, and you effectively lose what would have been a successful transaction.

eBay has introduced a concept called *immediate payment*, sometimes called *immediate buy*. Unlike normal listings, immediate payment listings do not end until the buyer has paid via PayPal and the payment has been confirmed.

Immediate payment can drive down your NPB rate, but it is available only on auction listings that have Buy It Now prices. There are other requirements: the seller has to have a certain type of PayPal account, for example. Figure 2.1 shows what an immediate payment looks like on an actual eBay listing.

eBay item 3085518034 [Ends Mar-23-04 20:47:18 PST] - OFFICIAL SAMSUNG MATRIX Cell Phone SPH-N27 - Microsoft Internet Explorer p

Address: <http://cgi.ebay.com/ws/ebayISAPI.dll?ViewItem&item=3085518034&category=64355>

home | pay | register | sign in | services | site map | help

Browse Search Sell My eBay Community Powered by IBM

Back to list of items Listed in category: Consumer Electronics > Cell Phones & Plans > Phones Only

OFFICIAL SAMSUNG MATRIX Cell Phone SPH-N270 *MIP* Item number: 3085518034
 BE THE FIRST TO HOLD AUTHENTIC MTX00097

You are signed in [Add to watch list in My eBay](#)

Buy It Now Price: **US \$1,299.00** (immediate payment required)
[Buy It Now >](#)

Time left: **6 days 1 hours**
 7-day listing
 Ends Mar-23-04 20:47:18 PST

Start time: Mar-16-04 20:47:18 PST

Item location: Emeryville, CA
 United States /Oakland

Ships to: United States only
[Shipping and payment details](#)

Seller information
[little-nitelite](#) (113 ☆)
 Feedback Score: 113
 Positive Feedback: 100%
 Member since Feb-26-03 in United States
[Read feedback comments](#)
[Ask seller a question](#)
[View seller's other items](#)

PayPal Buyer Protection Offered
 See coverage and eligibility

Description
 Item Specifics - Cell Phones
 Phone Brand: **Samsung** Features: **Color Screen, World, Tri-Band**
 Phone Model: **SPH-N270** Condition: **New, Never Opened**

Contains commands for working with the selected items.

start scotwingo's Bu... Local Disk (C:) chapter2 Chapter2 - Mic... 3 Internet Ex... 10:13 PM

FIGURE 2.1 An immediate payment auction listing with BIN

Average Sales Price

Another important vital sign for your eBay business is your *average sales price*, or ASP. ASP is calculated by dividing GMS for a period of time by the number of items sold during that period. For example, SellerX's GMS for June is \$10,000. SellerX sold 475 items during this period. So SellerX's ASP is \$21.05 ($\$10,000 \div 475$).

ASP can also be narrowed to consider a certain item, or SKU (short for stock keeping unit). In this case, we use the term *SKU ASP*. For example, let's say SellerX has two items, SKU1 and SKU2. During June, SellerX sells 500 units of SKU1, for \$5,000. Also, during June, SellerX sells 50 units of SKU2, for \$1,000.

SKU

SKU—stock keeping unit—is a term frequently used by off-line retailers to designate a unique item of inventory. The key to SKUs is that they are unique items. For example, let's say you have three sweaters:

1. Red XL
2. Blue L
3. Red XL

There are only two sweater SKUs: Red XL (quantity 2) and Blue L (quantity 1).

SKU1 has an SKU ASP of \$10 ($\$5,000 \div 500$) and SKU2 has a SKU ASP of \$20 ($\$1,000 \div 50$).

ASP is an important measure, because by monitoring your ASP over time, you can get a feeling for how your products are doing in the marketplace (assuming your inventory mix is relatively constant over the periods being measured). SKU ASP will help you determine the margin for a particular SKU over a period of time.

Average Order Value and Items per Order

Average order value, or AOV, applies if you are able to consolidate multiple items into a single order on eBay. If you consolidate, then AOV provides a way to measure any increases or decreases in the value of each order (with potentially multiple items) or the rate of consolidation. AOV is calculated by dividing the GMS over a period of time by the number of orders over the same time frame. Another interesting measurement when you are able to consolidate orders is the ratio of *items per order* (IPO).

For example, if SellerX has \$4,000 in GMS for May and 100 orders for 175 items, his AOV is \$40 ($\$4,000 \div 100$) and the IPO is 1.75 ($175 \div 100$).

AOV and IPO are very useful for measuring the rate at which buyers are consolidating items and buying more than one item from you on average. Imagine if you could sell twice as much to each buyer: that would double your business without a huge increase in effort. Also, for items in the \$1–\$50 range, buyers enjoy consolidation because it allows them to get more for their shipping fees. Later you will see how you can charge consolidated shipping rates and then measure your AOV/IPO to see what impact that has on your eBay business.

Conversion Rate

This metric is the most discussed vital sign of an eBay business. Nearly every seller calculates it differently and calls it by a different name. *Sell through*, *success rate*, *closure rate*, *winner rate*, and *bidder rate* are just a few of the terms used. In this book, we call it *conversion rate* (CR).

We define CR as the number of *items* sold divided by the number of *items* posted or listed over a time frame:

Conversion rate (%) = Number of *items* sold \div Number of *items* listed

Note that items sold and listed have to be over the same exact time frame. Note also that we highlight items here so that when using multi-quantity auction listings or multi-quantity fixed-price listings, you count each *item*, not each *listing*.

Also, we recommend using the same definition of CR for eBay Stores but separating that rate from your other eBay

business. So you have two conversion rates to track: your eBay conversion rate and your eBay Stores conversion rate.

Some confusion about CR results from relists. On eBay, when an item does not sell the first time, you can relist the item; if it sells the second time, you receive a credit for the relist.

In our experience, you should definitely use relists as a way to lower eBay fees. However, when calculating CR, since choosing to relist an item is the same business decision as posting a new item, relists should be counted as new items—and you can incur another listing fee if the item does not sell.

As with GMS, NPBs impact conversion rates as well. Thus, you have gross CR (without NPBs) and net CR (with NPBs). If your NPB rate is relatively low (less than 2%), then you can track just one of these vitals. If your NPB rate is higher, though, you should track both sets of CRs.

EXAMPLE 1

In July, SellerX lists 1,000 items, and 425 of them sell successfully. SellerX has a CR of 42.5% ($425 \div 1,000$).

EXAMPLE 2

In July, SellerX lists 10 Dutch auctions, each with a quantity of 10. SellerX sells 42 items out of the 100 items in the 10 listings. SellerX has a CR of 42% ($42 \div 100$).

EXAMPLE 3

In August, SellerX lists 1,000 items, and 425 close with a winning bidder. SellerX unfortunately experiences 40 NPBs. SellerX's gross CR is 42.5%, and his net CR is 38.5%.

EXAMPLE 4

In September, SellerX lists 2,000 items on eBay, of which 1,000 sell. SellerX also lists 4,000 items in an eBay Store, of which 100 sell. SellerX has an eBay CR of 50% ($1,000 \div 2,000$) and an eBay Store CR of 2.5% ($100 \div 4,000$).

Margin

Ultimately, all businesses exist to generate profits, and there is no better measurement of success than *margin* (sometimes called, somewhat confusingly, net income).

Margin is simply the profit your eBay business makes over a period of time, taking all costs into consideration (such as eBay fees, PayPal fees, costs of goods, labor, shipping and handling, rent, and so on).

In addition to margin, another useful metric is your margin as a percentage of GMS. For example, if SellerX has a GMS of \$10,000 and makes \$1,000 in margin a month, then SellerX's margin percentage is 10%.

Later in this chapter, we provide a simple format for an eBay business income statement, which you can use to calculate your absolute and percentage margin.

STRATEGY ONE

KNOW YOUR CRITICAL EBAY VITALS!

1

This brings us to our first key eBay strategy: Know Your Vitals. A great eBay business operator knows her GMS, ASP, and CR off the top of her head for the week, month, quarter, and year. Here are some of the powerful benefits you will get from knowing your eBay vitals.

Noticing Positive and Negative Trends in Your Business

If you know and monitor your vitals on a weekly, if not daily, basis, you will catch any positive or negative trends in

STRATEGY ONE

your business. For example, we recently had one seller whose ASP and CR took steep increases in the middle of the month. We were able to trace this change to an update in the look and feel of the seller's About Me page and to listings that we had made the previous week. Much to our surprise, a simple merchandising change had increased both of these metrics substantially. After noticing this, we continued to tweak the merchandising for even more benefit.

Conversely, we frequently see sudden decreases in ASP and CR, which are important to catch immediately and investigate; they can indicate a number of potential problems. For example, we recently had a digital camera seller experience a sharp CR decrease. Upon further investigation, we discovered another seller was offering largely the same items but at prices 5 to 10% lower than our seller's prices. We were able to vary the inventory and lower some prices to counter this competitive situation rapidly—rather than noticing it weeks or even months later.

Note that a decrease in one of your eBay vitals isn't necessarily a bad thing. It's better to take a more holistic approach to your eBay business. For example, your ASP may drop, but your overall margin can go up. Also, your CR and GMS can decrease, but absolute margin may increase. The key is to establish goals for your business and determine what vital changes are required to achieve those goals.

Experiments and Changes to Your Vitals

Knowing your vitals will also allow you to experiment—and then to see what effect the experiments have on your vitals. For example, we had a cell phone seller who tried selling accessories. Within 30 days, the accessories had:

- **Increased GMS by 10%**
- **Decreased ASP by 25%**
- **Decreased CR by 10%**
- **Increased AOV by 10%**
- **Increased IPO by 30%**
- **Increased margin by 15%**

The point is, if we had focused only on CR and ASP, this experiment would have looked like a complete failure. This seller's goal was to increase margin, and he was able to do that by putting accessories—with much higher margins than cell phones—into the mix.

How eBay Vitals Are Interrelated

Once you know and can track your critical vitals, you will see how they interact with your business. For example, in almost every eBay business, a decrease in conversion rates—assuming all other vitals are the same—means a substantial decrease in margin, because eBay fees increase when conversion rates decrease.

Generally, an increase in ASP will have positive implications for GMS and margin, because you are doing the same amount of work with higher results. The same can also be said of AOV and IPO: those two metrics will dramatically move the needle on GMS and margin, usually positively, unless some low-margin products are being added onto orders.

STRATEGY ONE

The Relative Health of Your eBay Business

Once you know your eBay vital stats, you can compare them to the eBay average and to those of other sellers you may know. At the time of this writing and based on public information and privately calculated information, the averages for eBay are the following:

- **GMS.** This metric varies widely among sellers. We calculate that the average **GMS** for sellers is around \$500 per month. This average is deceptive, because there are different “tiers” of sellers. The lower tier, which includes individuals and hobbyists, is the largest in terms of numbers, but they do a relatively small amount of **GMS**.
- **ASP.** The **ASP** across all of eBay is \$50. Note that this varies per category. For example, in computers, the **ASP** is in the \$500–\$800 range, and in CDs the **ASP** is in the \$5–\$8 range.
- **CR.** The average conversion rate on eBay is 45–50% and varies by category. The CD and DVD categories have lower **CRs**, and the electronics category has one of the highest **CRs**.
- **Margin, AOV, and IPO.** These eBay vitals are not known for most sellers. In fact, most sellers cannot or do not combine orders, so **AOVs** and **IPOs** are probably very low across all of eBay.

What-If Scenarios

Knowing your eBay vitals lets you do some planning and analysis of what-if scenarios. For example, you can say:

“What if I increase my listings by 10%?” Then you can assume your CR will decrease some, your ASP may decrease some, and your GMS and margin will increase or decrease, based on the impact to CR and ASP. Once you model these out, you can take the what-if action (listing more items, in this example) and see how GMS, CR, ASP, and margin end up compared to your planned values.

Once you have gone through this exercise for about six months, your feel for your eBay business model will be like driving a car. You’ll know when to hit the brakes, when to clutch, and when to hit the gas!

USE YOUR CURRENT VITALS TO SEE WHAT IT WOULD TAKE TO BE A MILLION-DOLLAR EBAY BUSINESS

Here’s a fun example you can go through now to see what it would be like for you to run a million-dollar-a-year eBay business. If you already have a million-dollar-a-year eBay business, then your goal can be to double your business.

Let’s assume we have an eBay business with these vitals:

- **GMS: \$20,000 per month**
- **ASP: \$60**
- **CR: 50%**
- **Margin: 7%**

Given these metrics, we’re also able to determine that this seller:

1. **Sells 333 items per month ($\$20,000 \div \60).**
2. **Lists or posts 666 items per month (listings = transactions \div CR, or $333 \div 0.50$).**

STRATEGY ONE

For this seller to be a million-dollar-a-year seller, he needs to take his GMS from \$20,000 to \$85,000 per month. Thus, assuming a constant CR and ASP, he would need to:

1. **Sell 1,416 items per month ($\$85,000 \div \60). Note that this implies he will need to buy and inventory these items before posting.**
2. **Ship 47 items a day.**
3. **List or post 2,833 items per month.**
4. **List 95 items a day.**

Go through this exercise for your business, and you will then be able to ask yourself what you need to do if you want to reach this level of activity. How many people would you need? Do you have software and other infrastructure that can handle the volume? How would you ship this much? Where would you store 1,416 items a month?

Noncritical Vitals

In addition to the critical eBay business vital metrics, a couple of noncritical measurements can allow you to fine-tune your eBay business.

Take Rate

When you start looking into your margin, the *take rate* (TR) is an important statistic to measure. Take rate is calculated by simply dividing your eBay fees by your GMS to get a percentage.

For example, SellerX sells \$20,000 a month and has a monthly eBay bill of \$1,400. Therefore, SellerX's TR is 7% ($\$1,400 \div \$20,000$). Note that TR does not count PayPal fees.

The average TR for all of eBay is in the range of 7 to 8%. This may seem high given that final value fees start at 5.25% and go down, but look at an example. SellerX has the following statistics:

- **A 50% conversion rate and an ASP of \$50**
- **A starting auction price of \$25**
- **A policy of using BIN (\$0.05)**
- **eBay picture hosting (\$0.15)**
- **\$20,000 a month in sales**

Based on these data points, we can calculate the following:

- **400 items ($\$20,000 \div 50$) are sold a month.**
- **800 items are posted a month.**
- **Listing fees per item are $\$0.05$ (BIN) + $\$0.15$ (pics) + $\$0.60$ (insertion fee) = $\$0.80$.**
- **Final value fees per \$50 item sold are $\$1.31$ + $\$0.68$ = $\$1.99$.**
- **Total fees are $(\$0.80 \times 800)$ + $(\$1.99 \times 400)$ = $\$640$ + $\$796$ = $\$1,436$.**
- **$\$1,436 \div \$20,000$ = **7.18% TR****

The preceding example illustrates that given eBay's averages, you can plan for your TR to be in the 7% to 8% range. TR illustrates the importance of knowing and tracking your eBay vitals, because they drive your TR. For example, if your ASP is less than \$50 and your conversion rate decreases, your eBay fees as a percentage of GMS skyrocket.

Let's take two extreme examples to illustrate this point and show how ASP and CR work in concert to drive TR.

EXAMPLE 1

SellerA sells VHS tapes and has the following eBay vitals:

- **\$20,000 per month GMS**
- **\$8 ASP**
- **All items start at \$0.99**
- **10% conversion rate**

EXAMPLE 2

SellerB sells laptops and has the following eBay vitals:

- **\$20,000 per month GMS**
- **\$350 ASP**
- **All items start at \$9.99**
- **90% conversion rate**

The TR for Example 1 is this:

- **SellerA sells 2,500 items ($\$20,000 \div 8$) per month.**
- **SellerA lists 25,000 items ($2,500 \div 0.10$) per month.**
- **Listing fee per item: \$0.20 (assuming pictures and BIN) + \$0.30 = \$0.50 per item listed.**
- **FVF per item: ($5.25\% \times \$8$) = \$0.42 per item sold.**
- **SellerA's fees are ($\$0.50 \times 25,000$) + ($\$0.42 \times 2,500$) = \$12,500 + \$1,050 = \$13,550.**
- **SellerA's TR is a massive 67.8%!! ($\$13,550 \div \$20,000$)**

The TR for Example 2 is this:

- **SellerB sells 57 items ($\$20,000 \div 350$) per month.**
- **SellerB lists 63 items ($57 \div 0.90$) per month.**
- **Listing fee per item: $\$0.20$ (assuming pictures and BIN) + $\$0.35 = \0.55 per item listed.**
- **FVF fee per item: $\$1.31 + (2.75\% \times \$325) = \$10.24$ per item sold.**
- **SellerB's fees are $(\$0.55 \times 63) + (\$10.24 \times 57) = \$34.65 + \$583.68 = \$618.33$.**
- **SellerB's TR is a petite 3.1%!! ($\$618.33 \div \$20,000$)**

These examples illustrate the broad spectrum of TR based on ASP and CR (holding all other things constant). Believe it or not, there are sellers like SellerA whose listing fees alone are more than 20% of their GMS. These are clearly broken business models, and the businesses are on the brink of extinction—if they aren't already out of business.

To help you find where your business is in the spectrum and what it would look like if you vary ASP or conversion rate or both, Table 2.2 shows a range of data points.

Table 2.2 illustrates the eBay fees as a percentage of sales for a variety of CR and ASP options, given that all else stays the same. In this example, all items were listed for \$0.99 with no reserve and no optional fees such as BIN, image hosting, or promotion. Note that such extra insertion fees have the largest impact on the \$5 to \$40 ASPs, because they represent a very low percentage of higher ASPs.

By now you are hopefully not too shocked about where your TR is today and where it could or should be. Regardless of your current TR, the goal of the strategic framework presented next is to help you drive those vitals in the

TABLE 2.2 eBay fees take rate across a variety of ASPs and CRs

ASP	CR						
	20%	30%	40%	50%	60%	70%	100%
10	20.25%	15.25%	12.75%	11.25%	10.25%	9.54%	8.25%
20	19.00%	14.42%	12.13%	10.75%	9.83%	9.18%	8.00%
40	18.06%	13.48%	11.19%	9.81%	8.89%	8.24%	7.06%
80	17.28%	12.70%	10.41%	9.03%	8.11%	7.46%	6.28%
100	14.37%	10.70%	8.87%	7.77%	7.04%	6.51%	5.57%
200	11.31%	8.56%	7.19%	6.36%	5.81%	5.42%	4.71%
1000	4.46%	3.91%	3.64%	3.47%	3.36%	3.28%	3.14%

right direction, which will have the corresponding benefit of lowering your TR and increasing your margin.

BIN Rate

BIN rate is the percentage of items you sell via fixed price. For this calculation, we include BIN auction-style listings and fixed-price listings, but not store listings.

For example, in June, SellerX sold 1,000 items, 257 of which were BIN/fixed price. SellerX has a 25.7% BIN rate.

Note that the average BIN rate across eBay is about 25%, and we advocate moving this to the 40–60% range, if possible.

Shipping and Handling Margin

About a third of sellers use shipping and handling (S+H) as a source of profits. Another third break even, and another third actually lose money when they factor all costs into the equation. We define *S+H margin* as the difference be-

tween what you charge for shipping and handling and what it costs you. S+H costs include:

- **Postage**
- **Boxing materials**
- **Packing materials**
- **Insurance (if any)**
- **Any extra shipping costs incurred**

N O T E

Taxes are a pass-through cost and are not part of shipping and handling.

For example, over the course of a month, SellerX receives \$2,450 in S+H charges. SellerX's costs over that period are \$2,000. So, SellerX had a S+H margin of \$450, or 18%.

What about Feedback?!?

You may be wondering why feedback isn't a key eBay vital sign. Although feedback is an important aspect of your eBay business, once it's more than 100 or so, we have found that its value isn't that critical to your success. Feedback is more indicative of your customer service (which is important) and buyer fraud than your actual sales. For example, which of these sellers do you think does more GMS and makes more margin:

- returnbuy (43451 )  (96.8% positive)
- mobilepc (3040 )   (98.2% positive)

Using the feedback rating (43451 for returnbuy and 3040 for mobilepc), it would appear that returnbuy is by far the superior seller (by a factor of 10). However, returnbuy hasn't sold anything since 2003, and mobilepc is a top eBay seller by GMS.

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GMS is not equal to feedback, and feedback is not necessarily an indicator of GMS.

Strong feedback can have an impact on GMS (actually raising the ASP compared to competitors with lower feedback), but great feedback on eBay is so common that we have found buyers lump sellers into one of two categories: great feedback or bad feedback. The bad feedback category is for those with a negative feedback rating, or a positive one lower than 95%—or those with a large number of recent negatives.

Once a buyer puts you in the “good seller” category, there are many other ways you can increase your ASP that are more effective than getting your feedback from 1,000 to 10,000. We will cover these in detail later as part of the strategic framework.

Attach Rate and Attach ASP

If you are able to up-sell in your checkout system, two metrics that are important to track are the rate at which people up-sell—called the *attach rate*—and the ASP of the items up-sold, or the *attach ASP*.

For example, SellerX sells 500 items a month and up-sells 20 items a month for an additional \$1,100 in GMS. SellerX’s attach rate is 4% ($20 \div 500$), and the attach ASP is \$55 ($\$1,100 \div 20$).

A Tale of Two Documents

To drive your eBay business forward, you will need two basic accounting documents: an income statement (sometimes called a profit-and-loss statement, or P+L) and a balance sheet. In the next two sections, we present a simplified income statement and a balance sheet

that we have found useful for eBay businesses. Note that if you are using software such as QuickBooks or Peachtree, you should be able to customize the reports in those packages to line up with the formats presented here.

Your eBay Business Income Statement

The income statement is useful to show all of your incomes, your costs, and your margin over a given time frame. A sample income statement follows, with descriptions in parentheses.

INCOME STATEMENT	
	GMS
	+ S+H Income
	- Cost of Goods Sold (COGS)
	- S+H Cost
GROSS MARGIN	_____
PERCENTAGE OF INCOME	_____
OTHER EXPENSES	
	- eBay Fees
	- Payment Processing Fees
	- Labor and Health Insurance
	- Rent
	- Insurance
	- Other Costs
NET MARGIN	_____
PERCENTAGE OF INCOME	_____

Here is an example of a simple, real-life eBay business income statement.

INCOME STATEMENT FOR 1/1/04-2/1/04	
	\$25,000 GMS
+ \$ 4,000	S+H Income
- \$18,000	Cost of Goods Sold (COGS)
- \$ 3,750	S+H Cost
GROSS MARGIN	\$ 7,250
PERCENTAGE OF INCOME 25% ($\$7,250 \div \$29,000$)	
OTHER EXPENSES	
-	\$1,750 eBay Fees
-	\$ 550 Payment Processing Fees
-	\$1,000 Labor and Health Insurance
-	\$ 750 Rent
-	\$ 600 Property Insurance
-	\$ 450 Other Costs
NET MARGIN	\$2,150
MARGIN PERCENTAGE 7.41% ($\$2,150 \div \$29,000$)	

As you can see, this income statement makes it easy to calculate many of your eBay vital statistics, such as GMS, margin, S+H margin, and so on. It also gives you two important percentages you should watch and work to improve: *gross margin* and *net margin*. In this example, a gross margin of 25% and a net margin of 7.41% are good. To in-

crease gross margin, you essentially need to sell your products for more or increase your margin rate on S+H, or both. To increase your net margin, you need to decrease your non-product costs, such as eBay fees, payment fees, and others.

Throughout the rest of the book, we highlight several ways to increase your net margin and gross margin.

Your eBay Business Balance Sheet

A balance sheet is a way of showing both the assets and the liabilities of your business. As the name suggests, your balance sheet should “balance,” or add up. An income statement covers a *given period of time*; a balance sheet pertains to a *given date in time*.

BALANCE SHEET FOR JULY 1, 2004	
ASSETS	
+ Cash	
+ Inventory	
+ Other Assets	
LIABILITIES	
- Debt	
- Accounts Payable	
NET ASSETS	_____

Following is an example of a balance sheet from a real eBay business.

BALANCE SHEET FOR JULY 1, 2004**ASSETS**

+ \$35,000 Cash
+ \$25,000 Inventory
+ \$ 5,000 Other Assets (Equipment)

TOTAL ASSETS \$65,000

LIABILITIES

- \$10,000 Debt (Credit Card)
- \$15,000 Accounts Payable
(For Inventory Purchase)

TOTAL LIABILITIES \$25,000

NET ASSETS \$40,000 (\$65,000 - \$25,000)

Now that you have your eBay vital statistics, a basic income statement, and a balance sheet, you possess the foundation for taking your business to the next level. In Chapter 3, we introduce the strategic framework: the Five P's.

Chapter 2 Summary

NEW TERMINOLOGY

Gross merchandise sales (GMS)—The volume of your sales on eBay.

Non-paying bidder rate (NPB rate)—The rate at which your items are left unpaid by non-paying bidders. Formula: $\$NPB \div \$GMS = NPB \text{ rate}$.

Average sales price (ASP)—The average sales price over a period of time. Formula: $GMS \div \text{number of sales} = ASP$.

Stock keeping unit (SKU)—An individual, unique inventory item.

Average order value (AOV)—The average value of orders, a metric that is useful if you are consolidating orders (that is, selling more than one item per order). Formula: $GMS \div \text{number of orders} = AOV$.

Items per order (IPO)—The number of items per order, another measurement that is useful if you are consolidating orders. Formula: $\text{number of items} \div \text{number of orders} = IPO$.

Conversion rate (CR)—The pace at which your listed items are selling, expressed as a percentage. Formula: $\text{number of items listed} \div \text{number of items sold} = CR$.

Margin—The ultimate cash generated by your business, sometimes called net income, “the bottom line,” or profit.

Take rate (TR)—The amount, expressed in a percentage, of your GMS that goes toward eBay fees. Formula: $eBay \text{ fees} \div GMS = TR$.

BIN rate—The percentage of items sold that are attributable to the BIN and fixed-price formats. Formula: $BIN \text{ or FP items sold} \div \text{total items sold} = BIN \text{ rate}$.

S+H margin—The margin (or loss) made on shipping and handling, expressed as both an absolute value and a percentage.

Attach rate—If your checkout supports up-selling, the rate at which customers are up-sold, or at which they attach items to the original order. Formula: $\text{items up-sold per month} \div \text{total items sold} = \text{attach rate}$.

Attach ASP—The average selling price of items that are attached as a secondary item onto a primary purchase. Formula: $\text{up-sold GMS} \div \text{number of up-sold items} = \text{attach ASP}$.

Chapter 2 Summary

KEY CONCEPTS

The goal of this chapter is to build a foundation of the business concepts you need to know well in order to drive your business forward. The key concepts are:

eBay listings. We reviewed the three types of eBay listings: auction-style, fixed price, and eBay Store.

eBay fees. We explained the eBay fee structure, which every seller should know by heart, because it is a significant cost for most sellers that should be tracked via TR.

eBay vital signs. Just as a doctor reviews your vital signs to determine your health, you should monitor and review your eBay vital signs, as just reiterated in the “New Terminology” section.

Strategy 1. This chapter introduced the first strategy: Know Your Vital Signs. Basically, this strategy says that once you know your eBay vitals, you can experiment, run what-if scenarios, and learn how the eBay vitals for your eBay business are related. For example, what would happen to your eBay vitals if you were to list 15% more this month?

Feedback. Feedback is an important part of eBay and a great measure of how you are doing with customer service, but it’s not generally related to the health of your business or how much one seller is selling versus another.

Income statement. If you don’t already have an income statement, or if you would like to improve what you have, you can use the basic eBay business income statement we provided. This income statement highlights your GMS, gross margin, and net margin—three key indicators of how any retail business is doing.

Balance sheet. Finally, we introduced an eBay business balance sheet to help you keep track of your assets, liabilities, and (hopefully) net assets.

Chapter 2 Summary

FOR MORE INFORMATION

http://pages.ebay.com/help/sell/formats.html	QuickBooks, a popular accounting package used by eBay businesses
A description of eBay listing types	
http://pages.ebay.com/help/sell/fees.html	http://www.peachtree.com
An overview of eBay fees	The home of Peachtree Accounting, another popular accounting package
http://www.intuit.com	
The makers of Quicken and	

EXERCISES

1. Calculate your eBay vitals in a notebook or a spreadsheet. Which ones are most important to your business? Which ones do you think you can improve? Which ones do you think will be hardest to change?
2. Calculate what it would take for you to have a million-dollar-a-year eBay business. (If you're already there, how can you double your business?)

