

eBay Drop Off Stores: Cashing in on the Latest Trend

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In 1995, eBay was created over Labor Day weekend by Pierre Omidyar to help people sell and buy items over the internet. Over the coming years, millions of eBay members would buy and sell unused and unwanted items from their homes and budding entrepreneurs would use eBay to launch their web businesses. Ten years later, eBay has grown to an online auction site with 55 million items available worldwide at any given time and 157 million members registered worldwide. In early 2002, eBay established a "Trading Assistant Program". This created a formal directory on eBay for experienced eBay sellers to market their services to others interested in selling their items. The idea behind the Trading Assistant Program is that most people have unwanted items or unneeded items, but do not have the expertise or the time to sell them on eBay. In 2003, survey data suggested that 18% of the items sold on eBay are sold on consignment by Trading Assistants.

This case traces the startup of an eBay drop off site and the problems facing the entrepreneurs who started the site. It may be used in an Entrepreneurship or marketing class.

In early 2005, Entrepreneur magazine cited "Tech and eBay" as a growing area for new businesses and franchises. In particular, the article mentioned the next generation of trading assistants: brick and mortar stores that sell items for individuals on eBay on a consignment basis. In the eBay community, these stores are commonly called drop-off stores. Several companies had already developed franchise systems for drop off stores including iSoldit and Quikdrop. In September of 2005, iSoldit's website stated that their network of over 100 franchisees is the largest dollar volume seller on eBay.

In February of 2005, Debbie Landreth was reading Entrepreneur magazine. She was particularly interested in the article that stated that eBay drop off stores were a hot business idea. Debbie had been selling items on eBay for over 4 years and over the last year

several of her friends and acquaintances had asked her to sell items for them on eBay. She had even taken a few items on consignment, all of which sold. Debbie considered herself to have an entrepreneurial spirit and frequently had business ideas. Over the next two months, Debbie mulled over the idea of opening an eBay drop-off store. She was concerned about the amount of money it would take to get started. eBay drop-off store franchises such as iSoldit estimated the cost to get started at approximately \$100,000 (including a \$15,000 franchise fee). With her eBay experience, Debbie felt that she did not need a franchise. However, even without a franchise fee, Debbie was concerned about the amount of money needed to open an eBay drop-off store. She continued to analyze the benefits and drawbacks of the idea over the next few months.

In late March 2005, Debbie attended an alumni function at her undergraduate alma mater. She began talking to a fellow alumnus, Mike Matherne. Mike was a local business owner and he and Debbie had discussed some of her business ideas in the past. Debbie mentioned her latest idea to Mike. He seemed surprised and told Debbie he knew of someone else who was considering the idea, but did not provide any further details. Later that day, Debbie received an e-mail from Mike asking her to call him. When she did, Mike revealed that he and two other friends had been considering the same idea. Mike admitted that he and his friends did not know very much about eBay, but were willing to help fund the new venture for a share of the profits. Debbie and Mike agreed that they might both have something to offer each other and decided to meet further to discuss it.

At the first meeting with Mike and one of his friends (Ryan), the enthusiasm was very high. Debbie had prepared profit and loss statements based on research she had done. Exhibit 1 shows the first six months of the initial profit and loss statements Debbie had created for this meeting. Debbie had used an average sale price of \$25 per item to calculate the total monthly eBay revenues. Debbie had found an eBay Drop-off Store Industry Survey that suggested the average selling price was \$75 per item and the 73% of items taken on consignment actually sell. Debbie had used the lower number because she thought in the beginning it would be difficult to get higher priced consignments. Mike and Ryan disagreed. They convinced Debbie that the business would be much more profitable than she had originally calculated.

Two incidents furthered fueled the threesome's excitement. Ryan had recently won baseball tickets at a local golf tournament. He was unable to go to the game and asked Debbie to sell them on eBay. The tickets sold for more than anticipated. Ryan also had a friend with some NASCAR tickets that he was not going to be able to use. These tickets also sold for more than anticipated. Debbie, Mike and Ryan all agreed to move forward with the business idea. They began the process of organizing as a sub Chapter S corporation.

The three decided to call the business Drop Off! Cash In! It would be located inside a print shop that Mike, Ryan and Steve (another owner in Drop Off! Cash In!) owned. This would be less expensive than paying rent and other overhead costs on a separate location. In May 2005, Debbie (with limited help from Mike) worked on getting the space in the print shop organized to do business effectively. The foursome had put the word out about their budding business and consignments started to come in from friends and family.

One thing the business needed was a software program to manage consignments. There were many products available that would manage auctions on eBay, but Drop Off! Cash In! needed software that would keep up with which items belonged to which consignors, which items sold and for how much, as well as how much was owed consigners. There were several software programs in development, but most of the programs were not fully functional. In addition, the better software products cost as much as \$150 a month in licensing fees. The problem of which, if any, software to use would plague the business for the next several months.

Debbie was hesitant to begin advertising for several reasons. First, without a reliable software program in place, she was concerned about having too much business to keep up with manually. In addition, she was doing all of the work herself, including all of the auction functions—taking pictures, writing detailed descriptions, monitoring listings, and packaging and shipping items when they sold. She also spent a considerable amount of time explaining the business to potential and existing clients, completing the process necessary to be recognized as a sub Chapter S corporation, and doing all accounting work. She was concerned that if the business advertised, she could not keep up.

Mike, Ryan and Steve all owned several other businesses and were not in a position to help on a regular basis. In fact, Mike was really the only other owner that had taken an active interest in the business. He and Debbie frequently had long phone conversations discussing the business' problems and strategy. Debbie had planned for an employee in her original profit and loss statement and had discussed hiring someone with eBay experience with her partners at that time. In fact, another result from the industry survey that captured Debbie's attention was that most respondents to the survey indicated that it took between 20 and 30 minutes to research, photograph and list one item on eBay. This estimate did not include packing time, answering questions from potential buyers or other duties that might need to be performed. Debbie had estimated on the original profit and loss statement that a part-time employee would need to work approximately 15 minutes for each item that was listed. The original plan also included calculations for a part-time employee working approximately 75 hours a month learning the business for the first three months.

Debbie knew that it was time to take that step and discussed this issue with Mike. Mike was concerned about the added cost of hiring someone. He told Debbie that they had hired employees at minimum wage at their other businesses with success. He argued that it was a good way to test employees and reward them if they worked out.

Mike knew of a college student looking for work. Debbie interviewed her and found her intelligent, eager to learn, and willing to work for minimum wage; unfortunately she had no eBay experience. Debbie scheduled the employee to work 20 hours a week. Over the next month, Debbie actually felt as if she were getting less done because of the amount of time she had to spend training the new employee.

Another problem that had come up was the quality of the items that people were bringing in. By July 2005, the business had a steady stream of items to list from a small number of regular clients. Some of these clients were bringing in items that would sell for a maximum of \$9.99 on eBay. On a \$9.99 item, Drop Off! Cash In! would make approximately \$1.67. In addition, some clients were dropping off several boxes of items of garage sale quality at best. Debbie found it difficult to balance the roles of telling clients that she wanted their business and rejecting some of their items.

In late July of 2005, the business had depleted its original cash. The owners had some tough decisions to make. The business had been paying Debbie a modest salary, but could no longer afford to do so. Debbie and Mike discussed moving the business into Debbie's home and paying Debbie on commission. This plan would eliminate expenses such as rent, some overhead, Debbie's full salary, and the part-time employee's salary. In addition, Debbie would try harder not to take items that would not sell for at least \$25. Debbie and Mike decided to move forward with this plan. Throughout the next few weeks, Debbie tried to continue listing and selling items while moving the business from the print shop to her home.

Nearly two months later, Debbie is concerned about the business and her personal finances. She is working over 40 hours per week and the commissions she is earning total approximately \$1000 per month.

If you were Debbie, what would you do now? What could have been done differently in the beginning to avoid some of the problems that Drop Off! Cash In! has encountered?

Were the owners of Drop Off! Cash In! wrong not to consider a franchise? Why or why not? What are the benefits of belonging to a franchise system? The drawbacks?

EXHIBIT 1

Drop Off! Cash In!							
Pro Forma Profit and Loss Statement							
	Start-up	May	June	July	Aug.	Sept.	Oct.
# Monthly Listings		150	210	270	330	390	450
Total eBay Revenues		3750	5250	6750	8250	9750	11250
eBay Gross Profit		1050	1470	1890	2310	2730	3150
Shipping Gross Profit		281	394	506	619	731	844
Total Gross Profit		1331	1864	2396	2929	3461	3994
Operating Expenses							
Rent		0	0	0	0	0	0
Phone	64	80	80	80	80	80	80
Utilities		0	0	0	0	0	0
Insurance		83	83	83	83	83	83
Advertising	1000	200	200	200	200	200	200
Software License		25	25	25	25	25	25
Debbie's Salary (12%)		450	630	810	990	1170	1350
Salaries (\$8 hour)		600	600	600	660	780	900
Employment Taxes		45.9	45.9	45.9	50	60	69
Total Expenses	1064	1483.9	1663.9	1843.9	2088	2398	2707
Net Profit (Loss)	-1064	-152.9	200.1	552.1	841	1063	1287
Cumulative Net Profit (Loss)	-1064	-1216.9	-1016.8	-464.7	376.3	1439.3	2726.3

EXHIBIT 2

eBay Drop-off Store Industry Survey

Earlier this month more than fifty eBay drop-off stores completed a questionnaire for AuctionBytes. The results are very informative for anyone interested in the business: 76% of respondents said they were independent eBay drop-off stores with one or more locations. 22% said they were franchises or chains with plans to go national within the next 12 month. 2% chose "other."

The revenue stream for the majority of these stores came solely from their consignment business. A few offered sideline services, such as Web hosting, site design and shipping. The majority of respondents kept their stores open more than 40 hours per week, had 2-4 full-time employees and 2-4 part-time employees.

Most drop-offs spent in excess of \$500 a month to market their businesses, with newspaper advertisements being the favorite method of marketing.

The majority of stores responded that they served between 1 and 30 customers per week, and each customer, on average, brought in between 1 and 10 items to be listed. The average selling price (ASP) per item varied a bit between franchises and independents. The weighted ASP for independents was ~\$75/item. For franchises, it was higher at ~\$91. The average sell-through rate (again, weighted avg.) for these stores was ~73% for independents and ~77% for franchises.