

My eBay MBA: a dozen business lessons from online auctions

By Lucy Kellaway Financial Times

Matt is a 17-year-old schoolboy who in the past couple of months has spent more than £600 on tickets to Glastonbury, Reading and assorted other pop festivals. He has financed his summer of noise and sleeplessness by doing something else he enjoys: trading computer games on eBay.

Jane is a mother who quit her full-time job when she had her first baby, and then spent the next six months buying up Bugaboo pushchairs, taking them to pieces and selling the spare parts on [eBay](#) at a tidy profit.

Since the website was started nearly 20 years ago, millions of people have been [using it to earn extra cash](#). Millions of others, like me, use it to stuff their houses full of things they don't need – in my case including 10 pairs of Emma Hope boots, a Victorian armchair with broken springs and a mahogany gavel. For all of us the auction site is variously source of profit, distraction, exhilaration, disappointment, displacement – and education.

This last role is the least talked about, but may be the most important. The website has surreptitiously taught its users a good deal about business, markets and consumer behaviour. It is a place where animal spirits roam free and yet markets are transparent; [where high- and low-tech meet](#) and where the stakes are small but the data huge – as a DIY business school, there has never been anything like it.

During the past few weeks, in idle moments between unsuccessfully bidding for an Ercol table and buying some rather fancy Conran lights (£30 for four), I've constructed the essential eBay MBA – 12 lessons gleaned from the auction site that rival anything to be learned at business school.

1. Trust is vital . . .

...especially when you are expected to buy things from perfect strangers with user names such as mickey_boy69. It is built through feedback, something which other businesses deploy as a clumsy afterthought. eBay shows that there are three conditions for feedback to make a difference: it must be a) respected, b) universal and c) instant. On the site there is no role for politics, PR advisers or social media campaigns in shaping reputation; all is done by feedback alone. Buyers with 100 per cent scores know they can sell for higher prices – which means there is an overwhelming incentive to behave well every single time.

2. Consumers are sometimes irrational

Human desire for a bargain is such that it warps reason. The data show auctions with an opening bid of 99p get buyers so excited they usually end up bidding the price up more than when the starting bid is higher.

3 . . . and sometimes dead sensible

People don't rate gimmicky sales techniques – all they want is to know exactly what they are buying. They like clear photographs taken from every possible angle so they can zoom in and out. Otherwise, they won't pay. I have a nice summer jacket designed by Theory which I bought for £5 because the seller posted an upside-down picture of it crumpled on the floor.

4. Jargon and hyperbole subtract value

Fancy words and adjectives are pointless, as no one would ever use them as a search term. A sofa that I'm "watching" on eBay is described like this: "Comfy. Material is brown velvet. Very heavy, needs two strong people to lift."

Here is how a similar item is described new at Heal's, the furniture store: "Hand-crafted from the finest fabrics handpicked from the leading mills in Europe, the proportions offer a formal yet comfortable sit."

5. Spelling matters

If you spell it wrong, people can't find it. Even though there are now dedicated sites that search for common misspellings, you can still find a nice antique "chest of dawers" hanging fire at 1.04p.

6. Accentuate warts

Sellers go out of their way to direct your attention to the tiny scratch on the top of the coffee table, or the place where a stitch or two have come away at the waistband. No other retailer accentuates the negative like this. Even companies in regulated industries where they are forced to disclose the risks of their products don't do it as enthusiastically as eBay sellers. Far from putting buyers off, accentuating the warts builds trust.

7. Arbitrage opportunities are plentiful

Markets are not perfect, even when there are millions of transactions taking place every day, partly because knowledge is imperfect: many participants don't know what they are doing. Matt made money by being first to snap up games badly displayed or priced poorly. Jane worked out that the value of the parts of a Bugaboo were greater than the value of the whole. But holes in the market don't last. You need to be quick in moving on to the next one.

8. Do something you love

Matt first tried buying cosmetics in bulk and selling them singly, but as he had no interest in lipstick and eye shadow, he quickly got bored by this approach. If you love what you are selling you understand it better, you describe it better – and you end up making more money.

9. Study the data

Ebay has so much data on consumer behaviour, it is an economist's gold mine. Users can easily discover exactly what similar items have sold for, and work out when is the best time for an auction to end. To have one that finishes during the World Cup final is not smart.

10. The human touch is vital

Even in a place where no one meets or talks or knows each other's names, sellers still answer questions nicely, and enclose little cards with the goods. They have discovered that good manners lead to repeat business.

11 Innovation is overrated

On eBay almost everything has a value. An empty perfume bottle can sell for £5.50; 12 old car tax discs can fetch £9. You can make money out of virtually anything so long as you sell it well. I know someone who always replaces his iPhone with the latest model, selling his old one on eBay for as much as he paid for the new one. He keeps all the packaging, looks after the phone well and takes great photographs.

12. Tell stories

Storytelling is an aimless craze in the non-eBay world, but on the auction site can translate directly to profits. A houndstooth jacket (size extra large) came with the story "I wore this jacket once and unfortunately have gained weight and it doesn't fit and I'm in no mood to diet." In the end the jacket was bought by Emily Spivack, a fashion historian, who made it part of a blog about eBay clothes with histories.

What they don't teach you at eBay Business School . . .

. . . is how to network. That is because there is no need for it – the person without the contacts does just as well as the person with them. Anyone who needs to understand a world in which politics reigns and who you know counts is better advised to get a proper MBA.