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BY MICHAEL HODGSON

» » **Dangling promises of INCREASED SALES and ONLINE VISIBILITY, eBay is pulling retailers into a gray market outside established distribution agreement rules.**

to LISTEN TO EBAY, THE COMPANY is the perfect solution for businesses nationwide faced with trying to unload out of season, discontinued and seconded merchandise. They (a.k.a. eBay) have millions of eager buyers. We (a.k.a. retailers, reps and manufacturers) have piles of gear we'd love to sell. The promise of only having to point-and-click to turn unwanted goods in the storage room into needed dollars sounds almost too good to be true.

But eBay may not be the panacea many hoped it would be. GearTrends® conducted numerous in-depth inter-



views from August to December 2004 and discovered that eBay is as much of a headache for the industry as it could be a blessing.

THE NUMBERS SPEAK FOR THEMSELVES

Although eBay launched in 1995 with the idea of being essentially the world's online garage sale, it has morphed into a full-fledged global community that clearly has an appetite for more than just auction sales. In 1997, eBay had revenues of \$5.7 million. Revenue for end-of-year 2004 is expected to eclipse \$3.2 billion. Public since late 1998, the company (Nasdaq: EBAY) with headquarters in San Jose, Calif., reported Q3 2004 revenues of \$805.9 million, up a whopping 52 percent over the same period the year before.

The company's nearly 7,000 employees don't actually handle, stock or ship any goods. In fact, eBay has no inventory risk at all. All it does is provide sellers of any size, from individuals to retailers, a place to set up a virtual storefront that can reach a global market. Outside of providing the software and resources to enable transactions between buyer and seller, eBay focuses on marketing its brand and expanding its ever-growing number of 114 million registered users. Since those users represent 29 international markets and



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over 332 million product listings in more than 50,000 product categories, it would be safe to say that eBay's influence on the marketplace is vast.

For smaller retailers, eBay's vast number of registered users worldwide has been the carrot; the potential of leveraging new customers of their eBay storefronts into regular shoppers is hard to ignore. And that is something eBay has been counting on.

DECONSTRUCTING THE SALES CHANNELS

More than 50 million U.S. homes are now connected to the Internet via a high-speed broadband line—little wonder online shopping has become more popular and consumer behavior has changed. Increasingly, the Internet is where consumers learn about a company's products, services and even brands.

Even more relevant is that more than half of all web users in the United States (approximately 83.5 million) visited eBay or Amazon.com in January 2004, according to comScore Networks, a marketing research firm that measures online consumer behavior. That means the two e-commerce websites had more visitors than any retail location in the country, electronic or brick-and-mortar. Implications? eBay or Amazon could be a consumer's first encounter with a brand's products.

Retailers with whom we spoke who are selling online with or without manufacturer permission told us that shoppers on eBay are not just browsing for seconded or garage-sale gold anymore—they are increasingly looking for the best deal on brand new items. While it may have been fair to call eBay the world's largest garage



sale at one time, it is true no longer. According to company representatives answering questions at an eBay-sponsored seminar during Outdoor Retailer Summer Market 2004 in Salt Lake City, over half of all items now listed on eBay are new, rather than used, discontinued or seconded.

Little wonder that eBay has launched what it calls a "Seller Onramp Program" targeting specialty independent retailers in a variety of industries. What the eBay program offers are tools to place a storefront online quickly, economically and with the promise of increased sales. eBay is prowling and hungry, and the company has made it very obvious it wants a place at the outdoor industry's dinner table.

But here is where it gets just a little sticky for the e-commerce giant. eBay is very proud that its users can shop on its site for name brands such as The North Face, Marmot, Mountain Hardware, Patagonia, Camelbak, Kelty, Dagger and MSR. In fact, its users and potential users can search the web using Google or Yahoo for any one of those brands, among others, and find multiple eBay sale listings, although those sellers aren't likely authorized online dealers for any of them—and neither is eBay. Rather than contracting with manufacturers for the right to sell its brands new online, eBay has gone straight to the retail community. In the process, it's absolved itself of any direct responsibility for distribution agree-

ments and price structure.

Partnering with retailers for product fulfillment, rather than becoming an authorized dealer, is not a new business approach in the Internet world. Fogdog, once considered a leading sporting goods e-tailer in the late '90s (one of many that found less than success), as well as other e-tailers during the dot-com boom, tried to partner with brick-and-mortar retailers to fulfill orders for product when a manufacturer would not open the e-tailer directly. Naturally, companies quickly caught on to the creative gray marketing and put a stop to it in most cases. In those days, however, the discovery process was relatively easy, and the numbers of retailers working with e-tailers on the side amounted to a mere handful.

Times have changed. As of the company's financial report for Q3 2004, eBay hosted approximately 224,000 virtual stores globally, with nearly 143,000 of those now in the United States, or just about two of every three stores. And that only accounts for legitimate storefronts—defined as a formal storefront set up either by individual sellers or retailers through eBay's Onramp Program, although that may not mean the retailer is authorized to sell the product online. Likely there are many more that try to fly under the radar, such as a store in Tennessee that goes by the username "allthingsoutdoors" on eBay. When we visited "allthingsoutdoors" in mid-December, the seller had 274 positive feedback ratings in the month so far, and nearly 2,000 positive ratings from buyers for the year. As best we can tell, he's selling approximately 50 items per week, mostly at auction, mostly at deep discounts. The products appear to be new, and represent brand names such as The North Face, Marmot, Osprey, Columbia, Tilley, Oakley, MSR and more. Not a bad little sideline biz if you can build it and remain undetected.

» PLAYING THE NUMB3RS

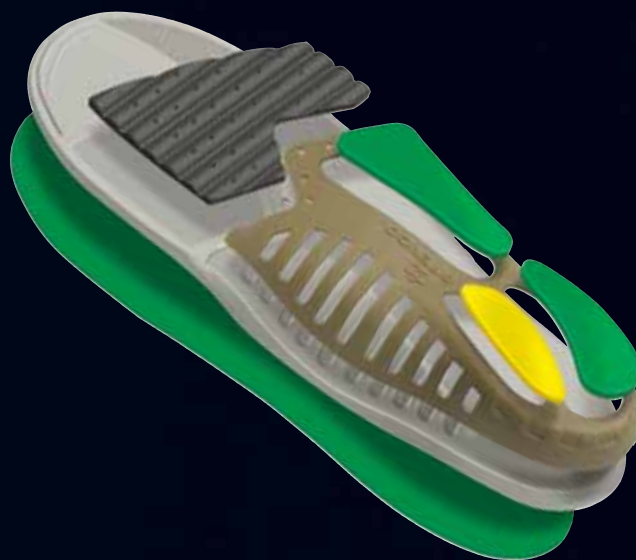


As of Aug. 17, 2004, eBay increased its stranglehold on the market as "the world's largest online marketplace for sporting goods." Sporting goods sales, which is the category that includes all things outdoor- and paddlesports-related, are impressive to say the least.

- » eBay Sports delivers \$2 billion in worldwide annualized gross merchandise volume (GMV).
- » There are more than 400,000 sporting goods items related to 39 different sports available on eBay daily.
- » A sporting goods item sells every second on eBay.
- » More than a third of all online sports merchandise sells on eBay.
- » The top five sporting goods categories, in order of size, are golf, cycling, hunting, fishing, and exercise and fitness.
- » The fastest growing sporting goods categories are scooters, canoes and kayaks, martial arts, triathlon, camping and watersports.



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GIVING WORKS

Which brings us to what Jerry Lloyd, director of business development for Cascade Designs, likens to the silly but popular arcade game called, "Whack a Mole" (where you whack a head popping out of a hole but as soon as you get one, another pops out someplace else). Manufacturers with the time and wherewithal spend hours each week ferreting out unauthorized sellers and stopping them. But does that stop the process?

"Each week, I see different players showing up," Lloyd said. "You whack one down and up pops another one. At the end of the day, I'm not sure yet how much damage selling on eBay is doing to our brand or other brands in the market."

A majority of outdoor companies we spoke with said they believed, at least for now, that auction environments like eBay, aren't consistent with the integrity of their brands. There is the feeling that eBay can train consumers that the brand's list price is always negotiable, whether the product is old or new, used or in mint condition.

Beyond the fears of price deflation, manufacturers told us they also want to control distribution online to ensure the shopping experience for their brands offers a high level of personal service that is consistent with a specialty retail environment.

POLICING EBAY

It is very difficult to determine who is who and what is what on eBay simply because the company maintains a very strict privacy policy. That cloaking allows sellers to establish online identities that reveal little if anything about themselves other than the products they're hawking. Companies

Despite the questions that surround eBay's foray into opening up retailers, the company is a very good corporate citizen when it comes to supporting charitable organizations. In 2003, the company began partnering with MissionFish (www.missionfish.org), a non-profit service of the Points of Light Foundation. Through MissionFish, eBay's online auction process turns in-kind donations into cash for hundreds of non-profits.

In November 2004, for example, Eagle Creek turned to the eBay auction process to raise money for the San Diego North County Food Bank which feeds over 100,000 families in the Southern California region during the Christmas holidays. With the help of product from Cloudveil, Ex Officio, Gramicci, Patagonia, The North Face, Yakima, Lowe Alpine and Adventure 16, Eagle Creek managed to raise \$2,700 for the food bank.

Setting up an online auction to benefit the charity or charities of your choice is very easy. Manufacturers simply have to register their auction with MissionFish, choose the charity from a list of approved non-profit organizations, and then designate the percentage of proceeds from the auction to be donated. Product listings that appear on eBay carry the eBay Giving Works icon, as well as the selected non-profit's logo, mission statement, and a statement that indicates what percentage of the sale is going to the non-profit. MissionFish collects no fees for the service, although eBay fees are still deducted from donated amounts.

trying to chase unauthorized sales and track down retailers selling outside of the boundaries of an established distribution agreement find that surfing eBay is a bit like going to a masquerade ball. You might be dancing with the prince or a pauper.

eBay offers no assistance at all in helping manufacturers discover identities at this e-commerce masquerade ball, citing privacy policies as the reason. However, it is that veil of secrecy, and apparent reluctance by the company to become proactive in offering tools that would assist in uncovering who is selling unauthorized brand-name goods on eBay or selling goods outside the boundaries of a signed distributor agreement that manufacturers tell GearTrends® is the most pernicious part of eBay's business model.

"eBay was founded as a peer-to-peer selling and buying vehicle, and we, as manufacturers, cannot say anything about that," said Rich Hill, vice president of sales for Patagonia. "However, as a retail distribution model, it is concerning, especially with the international aspect. What is stopping a retailer in the U.S. from selling to Asia, or Europe? Not much, and eBay pretty much enables them to hide from any manufacturer unless you're willing to do a lot of sleuthing."

Casey Sheahan, former president of Kelty, agreed. "I think eBay needs to be more forthright revealing who the owner of an account is with vendors."

Naturally, eBay sees things a bit differently.

"We capture a name and an email when an individual or store sets up an account with us," said Bob Holden, director of eBay Sports. "We do hear the issues loud and clear and have some things on tap. What is most important to realize though is that from a liability perspective, and from a philosophical perspective, we are not in the position of enforcing dealer agreements. From purely a resource perspective, we have no way of knowing what distribution agreements are in force either."

Holden declined to reveal what "some things on tap" might mean.

Even if a manufacturer goes to eBay management and informs the company that it does not authorize its products to be sold through eBay at any time, the e-commerce company remains reluctant. And it hesitates to offer solutions that would at least assist manufacturers in policing how their brand is being sold.

"We do not play favorites," Holden said. "We provide a marketplace, rather like a classifieds model. If a buyer and seller can come together, we want to be in the position of helping that transaction occur. From our perspective, as long as the prod-



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—Jerry Lloyd, director of business development for Cascade Designs

lectual property rights or copyrights. Using images from a manufacturer’s site, description copy that is cut-and-pasted directly from a manufacturer’s site, or using a trademark when it is not authorized for use by the company are a few of the examples that can get a seller in hot water with eBay.

However, eBay will not shut down a seller simply because it learns the seller is not an authorized dealer or is not at least authorized to sell online. In those cases, the onus is on the manufacturer to ferret out who the violators are, often by playing a creative yet time-consuming game of shopping cat-and-mouse.

It is eBay’s reluctance to implement ways to begin policing its own marketplace that has helped launch another business that would not have existed otherwise—the eBay Monitoring Edition, part of GenuNet’s (www.genuone.com) suite of Internet monitoring solutions designed to help a company protect its brand from gray-market diversion, brand abuse, counterfeiting and intellectual property theft.

VF, parent company of The North Face, began using GenuNet in the spring of 2003 to find unauthorized sellers on the Internet, the bulk of which are on eBay. It costs VF tens of thousands of dollars each month to manage all aspects of the company’s global enforcement program, GearTrends® was told, with TNF taking up more time than any other VF brand. At VF, a team of six investigators spend at least part of every day dealing with issues that originate with GenuNet alerts regarding eBay. Between Aug. 1 and Oct. 31, 2004, eBay had removed 1,046 auctions from its site as a result of TNF investigations.

“The vast majority involved counterfeit product,” said Sarah Gallagher, manager of online activity for TNF. “Five others were authorized dealers of ours who were not supposed to be selling online.” TNF pointed out to the stores in question they were in violation of distribution agreements and they took themselves offline.

“eBay is not an approved portal for The North Face brand, and no store is currently authorized to sell our brand through eBay,” added Steve Rendel, president of TNF.

WHERE DO WE GO FROM HERE?

Few disagree that eBay does offer this industry an almost ideal means to jettison millions of dollars worth of seconded, discontinued and overstock items. The challenge for both eBay and the industry is finding a way to work together that does

uct was purchased legally and is allowed to be sold on eBay, helping the transaction occur is all we can do.”

Internet experts and analysts we spoke with point out that while manufacturers have very legitimate concerns about how eBay is or might begin affecting their brand equity, distribution agreements, trademarks and price structure, they also point out that eBay must tread very carefully when it comes to helping manufacturers. Otherwise, it could risk alienating the very core

of its business model—the mom-and-pop, garage businesses that largely built the company’s growing global empire.

To its credit, eBay has launched a program it calls VeRO (Verified Rights Owner) that was developed “to facilitate cooperation between eBay and the rights owners” to protect intellectual property rights. Still, the manufacturer is left to do all of the legwork, and eBay will only shut down a seller’s site if the manufacturer can prove a store or individual was violating intel-

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WHAT TO KNOW BEFORE

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EBAY STORE



An eBay storefront can be a great way to get rid of inventory that is old, damaged or otherwise not in prime shape—the kind of gear that can collect dust for months on end while waiting for the right buyer to find his or her way into your store. Before you jump on the eBay bandwagon, however, you'll need to consider a few things:



- 1** Unless your distribution agreements allow you to sell online and sell through eBay, you'd best check in with your manufacturer partners regarding your intentions.
- 2** Most manufacturers GearTrends® spoke to for this story indicated they would not have a problem with retailers selling a few distressed or discontinued items online. Where you, as a retailer, will run into trouble is if new goods start appearing, especially if they are marked at a discount or sold at auction.
- 3** Don't even think of putting up products for sale in your storefront with images you have not taken yourself or product description copy you have not written. Lifting images from a manufacturer site, or any other source, as well as appropriating product descriptions written by the manufacturer or someone else is a violation of copyright laws and can run you afoul of intellectual property laws.
- 4** Assuming you have manufacturer approval to sell online, a digital camera in hand to take your own product photos, and a staff member ready to pen product descriptions, we'd recommend you head to www.ebay.com/education for step-by-step instructions on setting up your selling site. If you don't have a clue how to do it yourself, then head to the eBay Seller Onramp for hand-holding (all for additional fees, of course).

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not pollute the distribution channels, add layers of additional costs which get passed on to the retailer and the consumer, and won't risk devaluing a brand's price equity. Granted, that may be tough to do while also trying to ensure the open-market credo and level-playing-field promise that built eBay's community and keeps it intact and vital.

To date, eBay officials have danced around questions we posed at trade shows, by phone and by email, with two-steps and shuffle-slides that would have impressed even the most skilled politician. Our notes are filled with layers of quotes that essentially say, in one way or another, "We hear your concerns loud and clear and we're working on ideas regarding the issues that are important to the industry and have ideas about that which we'll share at some future date. Of course, we'd love to hear your ideas..."

More than one manufacturer told GearTrends® that unless eBay begins to be a little more cooperative and proactive about working with manufacturers to find solutions to their distribution challenges, they will soon begin posting public statements on their own websites informing consumers that products purchased on

eBay are not authorized and do not carry manufacturer warranties.

We respect eBay's need to protect the privacy of its registered users. Still, for a site that touts concepts of trust and safety, eBay

plays a don't-ask-don't-tell game that leaves many lost in the retail masquerade.

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SURVEY SAYS!

In our annual SNEWS® Retailer Survey, we asked retailers if they now sold goods on eBay or if they would consider it. **Thirty-four percent said they did, while 63 percent said "no."**

Most of those who told us they were selling through eBay indicated they were doing so only to move old, damaged or discontinued merchandise. What we found most interesting was the number of retailers who added commentary that indicated selling on eBay wasn't nearly as cool as one might think. More than 20 percent of those selling also stated it really was a complete pain and they were thinking of shutting eBay sales down—sterile sites, restrictive regulations, poor sales, too much time involved, etc. The universal message conveyed by those indicating they are not selling and would not consider selling on eBay is summed up by one retailer who wrote, "eBay is a Band-Aid solution to a greater supply-chain and buying problem which further weakens our market due to oversupply and downward price pressures." Another retailer wrote, "I don't want to be part of the problem—selling new stuff on eBay. Plus, I can get rid of the stuff for better margin than with eBay. Selling off-price only jeopardizes the health and future of small, independent retail stores. Products should always be in short supply to maintain the margin and price. eBay only encourages over-supply and overproduction."



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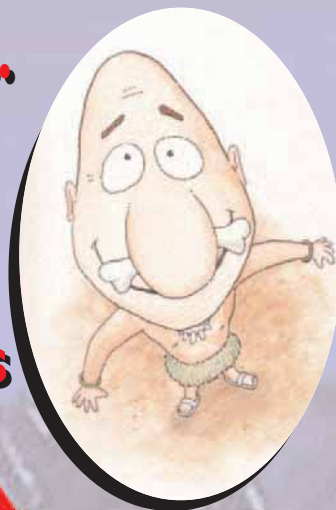
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