

No doubt about it, Wes Shepherd knows a lot about selling on eBay.

The Chicago-based entrepreneur launched a high-volume eBay business called Channel Velocity in 2003. He sells on consignment, auctioning the overstocked and returned items of well-known retailers such as Canon and Phillips.

Shepherd handles large lots of items — for example, hundreds of Italian espresso machines — but sells them one by one. (Shepherd sells about 5,000 espresso machines a year on eBay.) Although the one-by-one auctions are laborious, “it brings a higher recovery rate for our clients,” he says.

Not surprisingly, his years of selling large lots of items have taught him not only how to sell on eBay, but how to sell in large quantities.

Most important, Shepherd says, he’s learned about buyer psychology — which he says is the Holy Grail of success on eBay. He shared his hard-learned techniques with E-Commerce Guide.

The Waterfall Strategy

Shepherd uses all of eBay’s selling formats: auction, auction with reserve, fixed price and store listing. He combines these four formats into what he calls his “waterfall strategy.”

It works like this: He attracts the largest number of buyers to his auctions without a reserve price. He then aggressively cross-lists his other eBay listings on his auction listings page. These cross-listings send buyers “flowing through” his listings like water. At each stage in the “waterfall” — auction, reserve, fixed price and store listing — he makes sales.

“Most of your traffic is going to come from traditional auctions and you can use it as a loss leader — you have to have some way of looping people into your store and your other listings,” Shepherd says. Using an auction format sale to drive traffic to other listings “is the best way to do it,” he says.

“What we found is that the auction without any fixed price, like if you start it at .99 cents, you’ll always get bids if the product’s in demand. And people will generally bid it up to a reasonable market value,” Shepherd says. “But, more importantly, [the open auction] gets a lot of traffic.” In contrast, fixed price listings generate only a fifth or a tenth of the traffic, he says.

There are two types of auctions that buyers can’t resist, according to Shepherd. “One, auctions that are soon ending — because buyers don’t have to wait, they want that gratification, and two, auctions that have active bidding — because that’s where the action is — ‘I better get in there and get the deal.’”

About 55-60 percent of products on eBay are found via keyword searches. These keyword searches default to auctions that are ending soon. “So it’s very important that your [imminently ending auctions] show up and are visible.”

Psychology Kicks In

Sellers need to understand that buyers who have “lost” an auction are psychologically prepared — even eager — to make a purchase.

Shepherd talks about the practice of ‘sniping,’ which is when a buyer outbids all competitors during an auction’s last few seconds. These ‘snipers’ snatch items that other top bidders have gotten their hearts set on. “It really upsets people — they think they got the item, but two seconds before the close someone snipes them.”

At this point, a powerful buying mood sets in among the ‘defeated’ buyers. As he describes it, these frustrated buyers often think, “You know what? I don’t want to bid with these people anymore — this thing’s a joke. I just want my darn coffee machine!” And they go and see a fixed price listing, or one with a reserve, and they’ll just run it up and buy it — because they want to be done.”

“eBay will pick you up and get you really excited, but it will drop you just as quick,” he says, with a laugh. “You really have to understand auction psychology to build a retailing strategy to move high volume.”

Part of this psychology is knowing how to leverage buyers who lost an auction.” Shepherd says. “The thing is, if you have 30 bids on an item, only one person is going to win it. So what do you do with all those other people? So this is where the ‘water’ [auction bidders] starts spilling into different levels.”

“In a lot of the cases the people who lose the first auction get marketed to by eBay about other available items that are closing soon.” But Shepherd does his own marketing by directing them to his own related sales.

Steps Two Through Four: The Reserve, Fixed Price and Store Listings
After he’s gathered traffic with a traditional auction, he then directs buyers — perhaps an hour later, to capture the mood — to an auction with a reserve. (A reserve auction has a minimum price that a seller will accept to sell the item.)

“Once people determine the auction has left their price range, they might go to the reserve auction and pick it up.” For example, “Say I want \$500 for an item, I’ll put the reserve at \$500.”

Then, shortly after the reserve auction, he funnels buyers into his additional listings “So an hour after the auction that has the reserve, you might have the fixed price listing,” he says. “As a fourth tier, you might even put store listings in, and you’ll raise the prices by, let’s say, five percent.”

Shepherd's waterfall strategy calls for staggering each type of sale, one behind the other. "So you want all your auctions ending within the same time frame — within a few hours."

His eBay sales break down as follows:

- * Auctions without reserve: 50 percent of his sales
- * Reserve auctions: 5-10 percent of his sales
- * Fixed Price: 30 percent of his sales
- * eBay store: 5-10 percent of his sales

About half of his reserve auctions don't close, because bidders don't meet his minimum." But again, it's a traffic generator. I don't mind paying the extra fees, because I'm getting bidders onto my auctions."

Automate — But Don't Forget Buyer Mood

Since Shepherd is a volume seller, he has built software to automate most of his auction listings.

He automatically sends "second chance" offers to bidders who lost the first auction. For example, if he's just concluded an auction in which the winning bid was \$550, but two people bid \$540 and \$530: "We'll automate an offer of \$530 and \$520 to those people who bid on it — so we're selling three items off of one listing."

However, he won't send those offers immediately. "We'll send it after all the other auctions have ended behind it." The tricky part is trying to guess the time frame of these frustrated buyers. "If it's the mad bidder, who says, 'gosh, for \$20 more I'm just going to go buy it'...he'll go do that in the next 30 minutes."

Consequently, "I don't want to give him that offer until late at night."

"You're really trying to figure out their psychology," Shepherd says. "If you can figure out buyer psychology on eBay, you're one step ahead of pretty much everybody."

Common Seller Mistakes

A common mistake that sellers make is failing to post a clear policy about their auctions. In particular, sellers need to post well-considered rules about returns, warranties, payment policies and damage that

occurs during shipment. "You have to be very, very clear about what you expect from the buyer and what the buyer can expect from you," Shepherd says.

If a seller is completely clear about these issues then their volume of questions is very low. "If you're not, you're going to get a tremendously high amount of questions, which increases your costs." Handling a lot of questions makes it almost impossible to scale a high volume eBay business. Shepherd says he averages one question per auction, "at the most."

Responding quickly to e-mail queries from prospective buyers is "critical," he says. During the workday he answers within the hour. "If a question is answered, generally it's going to result in a purchase — I bet half the questions are ahead of a proposed purchase. They just need a feeling that there's someone on the other end of the line who can answer a simple question. The act of answering a simple question dramatically improves buyer confidence."

A Couple of Tricks

Shepherd is particularly fond of using the Feature Plus listing option on eBay. It costs \$20 but it places a seller's item at the top of a page.

The Feature Plus creates "a lot of traffic, it's very hard to miss when you're searching for items."

Naturally, your item's price point has to be high enough to justify the \$20 expenditure. In Shepherd's case, since he cross-lists his items he might make a handful of sales from one Feature Plus listing.

Another favorite technique of his involves his fixed price listings. He starts them off with a one-day listing. If it doesn't sell, he extends it to a three-day auction. If it still doesn't sell, he extends it further, until he reaches the maximum of 10 days. "What this does is that it keeps rotating the listings at the very front of the search results, because they're normally displayed by auctions that are ending first."

The other advantage of these time-limited listings is that they maintain urgency about the offer even as it's being extended. Once again, Shepherd is using the key element of his strategy: buyer psychology.