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A City Discount

As he's giving driving directions, John Stack warns that his office isn't in the best part of town. And it's true. His company, A City Discount, is headquartered in one of Atlanta's grittier neighborhoods, far from the skyscrapers of downtown and the shiny tourist spots. His dad moved the family business into this building in 1975 and, at least in appearance, it seems as though nothing has changed since then.

The 20,000-square-foot building is just another warehouse in a row of other nondescript warehouses and burned-out factories. The gravel parking lot out front is just big enough for a few cars. The lobby is a tiny rectangle, decorated with a white vinyl couch and a coffee table strewn with *Fortune*, *Money*, and other business magazines. A few framed advertisements and magazine articles hang on the dingy walls. The carpet is water stained and the window above the front door has a jagged hole in it.

This setting belies the company's success.

A City Discount is one of the top sellers of business and industrial products on eBay. In fact, the Atlanta company is the largest provider of used restaurant equipment on the site, though the lion's share of its revenue comes from selling new goods.

In five years of online selling, A City Discount has completed more than 25,000 eBay auctions, scoring some 20,000 positive feedback postings from buyers. The company's revenues were \$400,000 in 1999, and they've grown every year since: \$1.4 million in 2002, \$4 million in 2003, and around \$10 million in 2004.

A City Discount, which operates under the eBay name "acitydiscount," reached Titanium sales status in March 2003. The company sells some big—and fairly expensive and specialized—restaurant equipment. But this is a company that generates its revenue through volume, not through a few high-ticket items. Ice cream makers are A City Discount's biggest sellers, and most of the company's customers are mom-and-pop restaurateurs and consumers. The company's average sale is actually fairly low at just \$300.

John Stack's father started A City Discount in 1973. He'd been in the restaurant business his whole life and started to sell used equipment mainly as a side-line hobby. In doing so, he stumbled on a market with strong demand but few suppliers. Eventually, Stack's father sold the last of his restaurants to a Kentucky Fried Chicken franchisee, and turned his full attention to selling used equipment. He got his inventory at government auctions and by striking deals with restaurant chains that were closing or renovating their eateries and replacing their equipment. Indeed, Kentucky Fried Chicken became one of the first chains to supply A City Discount with merchandise.

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Old inventory from companies going out of business may find a huge number of receptive buyers on eBay.

Restaurant owners in Atlanta and the surrounding region would come to the company's warehouse on Murphy Avenue Southwest to buy fryers, ice makers, deli cases, and other supplies for their eateries. A City Discount had found its niche.

By the mid-1980s, John Stack, who'd worked as an engineer, returned to the family business and took over from his retiring father. While the 1970s and 1980s were pretty good for the business, the company began losing market share in the 1990s.

By 1999, sales were dropping fast, and John Stack wasn't sure how to turn things around. In fact, Stack didn't see many options for reviving the business, and he was planning to shut it down. Then, some very run-of-the-mill equipment changed things.

A City Discount bought out a chain restaurant's inventory and took everything into its warehouse. That included about 50 restaurant-quality coffeemakers.

"I didn't have a local market really," Stack says. So he decided to see if he could sell the coffeemakers on eBay. He knew that at that time about 3 million people shopped on eBay every day—providing much better exposure for the coffeemakers than he could get even in a big city like Atlanta.

Stack paid only about \$25 each for them, and he wasn't aiming to make a huge profit. He just wanted to get rid of the coffeemakers because they were eating up space in his warehouse. He started the bidding low, at around \$49, and people began buying. Each coffeemaker sold for around \$150 to \$200, resulting in a tidy profit for Stack.

Buoyed by the coffeemaker sales, he started experimenting with other items that had been sitting in his warehouse. Stack had his next big eBay success with some mandoline slicers, which he was selling on consignment. At his retail store, they had been such duds that Stack sent most of them back to the manufacturer.

A week later, though, he auctioned one of the slicers on eBay. When it sold, Stack called the manufacturer and begged his sales representative to bring the rest of them back. By the end of that year, A City Discount had sold about 500 of the slicers, both to restaurants and to consumers.

Every day, Stack and his staff were selling more and more things online and shifting their focus from cultivating retail customers to cultivating business on eBay. By 2001, Stack closed the retail business. Now more than 60 percent of A City Discount's sales come from eBay (both auctions and its eBay store). The rest are made through the company's own e-commerce web site and through relationships with existing customers.

"I've got more customers in California than I do in Georgia," Stack notes.

Though Stack's father found his niche selling used restaurant equipment, his son has added more new inventory to the mix. It costs less, in terms of time and money, to sell new items, particularly on eBay. Many of the used items that come into Stack's possession are big and expensive—fryers, coolers, and the like—so they attract higher bids on eBay. But that doesn't mean the profit margin is high.

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EBay is more than a flea market. In some categories, it's often easier to sell brand-new equipment than used equipment on the site.

"Selling used equipment is pretty labor intensive," Stack says. "Restaurant equipment is the greasiest, grimeiest equipment out there." When a used item comes in, Stack's staff typically cleans it, inspects it, and tests it for any defects. Used items are often sold as is. Stack's auction ads describe the item carefully and may indicate that an item is dirty, greasy, and in need of more cleaning.

"We get it where it looks decent so the customer can tell they're not buying a total piece of junk," he says.

Then, employees must photograph the item and write a description of it before posting it on eBay. Finally, the shipping department packs up the used item and puts it on a pallet for shipment.

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When selling used equipment, make sure to clean and test it for any defects, so you can inform customers of its functionality. Otherwise, auction off the items "as is."

A City Discount has about 30 employees, and most work primarily on the used equipment side, which accounts for just 20 percent of the company's sales. It's clear that used items are more labor intensive to sell even though the profit margins are smaller.

Through his decades in the restaurant equipment business, Stack has developed relationships with many manufacturers, and he sells their brand-new goods online. For these auctions, A City Discount is able to use stock photography and stock descriptions, minimizing the time employees must spend preparing a listing. Most of these manufacturers also drop ship their items directly to the winning bidder. That means A City doesn't have to inventory so many goods. This lowers the company's overhead and frees up its cash. And it enables Stack to transfer the cumbersome and expensive task of packaging and shipping items to someone else.

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When selling new equipment, have items drop shipped directly from the manufacturer to the buyer whenever possible.

A City Discount was the first company to begin aggressively marketing new restaurant equipment on eBay. Initially, because he had no competition, Stack marked up the prices of these goods, posting them at more than he could get at his retail storefront. But as competitors entered the market, prices dropped and equalized. Now, Stack starts bidding for the majority of his new equipment at 99 cents.

Stack points out that sometimes a penny can save you a nickel. If you start an auction at \$1, you'll pay a nickel more in eBay fees than if you start it at 99 cents. This same rule applies at higher starting bid prices as well. For instance, eBay charges a listing fee of 35 cents for an auction that starts at \$9.99, but 60 cents for an auction that starts at \$10.

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Before setting your starting bids, consult eBay's listing fees. Sometimes you can save a significant amount by starting an auction for just a penny less.

It took a while before Stack was comfortable with this pricing structure. He'd been trained as a retailer, so he initially treated eBay like another store and started

bidding at the rock-bottom price he was willing to accept. He found that many of his auctions were ending without a sale, yet he still owed eBay money on those items that didn't sell.

But eventually, Stack was reminded of something his father once told him: An item is worth only what someone is willing to pay for it.

So, like many experienced sellers, Stack slowly began lowering his opening bids. He shook himself free of that retail mentality and profited as a result. With eBay, sellers who start auctions with low opening prices do risk selling their merchandise for below its value—or even less than what they paid for it wholesale. But that rarely happens with the things that Stack auctions because he sells only items that he knows are in demand. The final prices are generally stable from one auction to the next, he says. Huge Hobart mixers, for example, typically sell for \$3,000 to \$4,000—exactly what they're worth—even if the opening bid is 99 cents.

Stack has many examples of items that have proven that this pricing strategy works. A used walk-in cooler and freezer combination is perhaps his best example. The freezer was part of a batch of equipment that Stack was liquidating for a supplier. The freezer was worth about \$40,000 new and was still in good shape, so Stack set up an auction with an initial asking price of \$10,000. No one bid. With his deadline to liquidate the stock looming and knowing that he might get nothing out of the item anyway, Stack listed it for 99 cents on eBay. He figured the owner would rather get rid of the freezer, no matter what the price, than be stuck with the surplus. In the end, the refrigerator-freezer combo wound up selling for more than \$10,000.

"Overall, I get a very fair price for my used equipment," Stack says.

By starting his auctions lower, Stack also saves on eBay listing fees. If he opens bidding for an item at \$499, eBay charges him a \$3.60 listing fee. But if bidding opens at 99 cents, he pays just 30 cents to post the auction, a savings of \$3.30. Such savings add up, especially for a high-volume seller like A City Discount, which has about 10,000 items for sale on the web site, both through auctions and in its eBay store.

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The lower you start your bidding, the greater your chances of selling the item for the price you're looking for. Plus, at the same time you'll save on listing fees.

Decades of experience in the family business have given Stack a good understanding of what restaurant equipment is in demand, what it's worth, and what it

will fetch on the open market. But he uses other tools, specifically HammerTap's DeepAnalysis, to understand the eBay marketplace.

Using results from completed auctions, the software application generates sales statistic reports. The software scans all of the auctions in a particular category and reveals the most successful sellers and most popular items, and shows aggregated total sales figures and sales success rates.

DeepAnalysis extracts data from auctions and shows which ones received the most bids and sold for the highest amounts. The application also generates reports that help sellers pinpoint which categories to list their items in, how long each auction should run, and what eBay extras (such as a gallery photo) will generate the most sales and the highest closing prices.

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Analyze all of your auctions using a tool like DeepAnalysis to determine which items are most popular, which items sell most frequently, and which items deliver the best profit.

Despite his success as an auction seller, Stack didn't open an eBay store until early 2004. At an eBay store, customers are able to buy an item right away at a fixed price without the hassle of bidding. Stack sells a variety of items through his store, including big-ticket items like conveyor pizza ovens and cheaper goods such as toasters and accessories. His store listings cost literally pennies a month, even those containing a picture. "eBay gave me the incentive to [open a store] when they had a significant fee increase," Stack shares. (As this book went to press, eBay implemented another fee increase, raising the monthly cost for a standard eBay store from \$9.95 to \$15.95. The auction site also now takes a bigger cut from store sales. It collects a final value fee of at least 8 percent for every item that is sold through an eBay store. That fee had previously been 5.25 percent of the item's closing price.)

A City Discount was recognized at the 2003 eBay Seller Summit as the auction site's best merchandiser because of the company's success in using various eBay merchandising tools to improve sales.

For example, Stack uses cross-selling techniques to move more merchandise. Each auction includes links for related items that are either for auction or for sale in A City Discount's eBay store. For example, someone who bids on a fryer will also see a listing—and links—to fryer baskets, filters, and other accessories A City Discount has for sale. Using these techniques, the company boosted its average sale from \$140 in January 2003 to \$300 in June 2004.

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Include links in your listings to other, related items you have for sale elsewhere on eBay.

Stack builds other hyperlinks into his auctions, something many sellers don't do. Bidders who are interested in the auction for a 24-pan pizza rack made by PVI Food Service can find out what else A City Discount has for sale from that manufacturer with just one click. They can also find auctions in that same category—pans and pan racks—by clicking another link.

Stack also employs other promotional techniques to improve sales.

The company uses a photograph not only for every auction, but also for everything for sale in its store. These pictures show up as smaller thumbnail-sized “gallery” images on eBay's category listings or search results page. Gallery listings cost 35 cents per item, but they increase an object's final price by an average of 11 percent, according to eBay. Every one of A City Discount's gallery images includes the company's logo, which Stack says helps build brand awareness among people who are shopping for restaurant equipment. Buyers can see A City Discount is the seller because its name is on the gallery image.

Other times, A City Discount pays extra to run a “Featured Plus” auction. This option, available to sellers with a feedback rating of 10 or more, ensures sellers that anyone searching for their specific item will see their listing. Featured items show up at the top of the screen on category listing pages, and they're also displayed prominently on search pages. The fee for this top-of-the-marquee billing is \$19.95 per item.

“We use Featured Plus occasionally,” Stack says. “We like to be at the top of search results.”

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Consider using eBay's Featured Plus service to get your items placed at the top of the site's category listing pages.

A City Discount maintains a database, programmed by Stack, of its entire inventory and auction history. This database is rich in information and helps him gauge what is selling and at what price. He also programmed the company software to mine eBay for feedback. So, every time a bidder posts a feedback rating for one of A City Discount's auctions, the database collects that information and

correlates it with the item, using the eBay auction number and internal inventory control number.

Stack uses this information later when he sells an identical item. He'll include a link in the next auction, "What our customers think about this item." Bidders who click on the link can read what previous buyers said about that particular product and manufacturer. Bidders can also see what A City Discount's customers thought about the company's shipping by clicking on the "Shipping Info See Our Feedbacks" in every auction.

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Track auction feedback and include past comments from customers when putting identical items up for sale in the future.

Stack has been an innovator since the day he began selling on eBay. He developed the first freight calculator on the auction site. That was out of sheer necessity. About a year into his eBay venture, Stack sold a sheet pan rack. The California-based buyer paid \$30 for shipping and handling. But it cost A City Discount five times as much to deliver the lightweight, yet bulky, item to the buyer.

Stack learned from his costly mistake and programmed his own freight calculator, which is now included in every A City Discount auction listing. The calculator works this way: It takes size-and-weight specifications from A City Discount's database of inventory and determines which shipping company can most efficiently and most affordably ship the item. When a customer enters the zip code, the calculator provides a shipping quote.

A City Discount's freight calculator is actually a very sophisticated tool. Many of the company's new items are drop shipped by the manufacturer. And many of these suppliers inventory their items in multiple locations around the country. Stack's shipping calculator is sophisticated enough to determine which warehouse is closest to the bidder, and it calculates the price that way.

Providing the freight calculator lowered his selling price, Stack says, because customers were figuring the shipping fees into the item cost and tempering their bidding accordingly. But it also improved his completion rate.

"Customers were more confident buying from me because there was no hidden cost," he adds.

Stack, an experienced computer programmer, designed and wrote the code for A City Discount's proprietary freight calculator. But these days, eBay also has a free shipping calculator that sellers can use in their listings. To find out more, visit <http://pages.ebay.com/services/buyandsell/shipping.html>.

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Include a shipping calculator so customers know exactly how much it will cost to transport a given item. If you don't want to build your own, use the one provided by eBay.

A City Discount also was the first seller to begin using eBay's Keyword Program. The service allows sellers with an eBay store to select specific words and phrases as their keywords. When shoppers type those keywords into eBay's search engine, the company's banner ad pops up above the search results. Sellers pay for the advertisement only when someone clicks on it. Stack says the keyword program is an effective way to advertise his business and to attract bidders. "This banner has appeared more than 40 million times, but we only pay by click," he says.

The company was also a pilot member of eBay's Co-Op Advertising Program, in which the auction site shares in the cost of any advertising by PowerSellers and trading assistants. eBay will reimburse up to \$8,000 of a seller's print advertising costs each quarter. Stack was also one of the first sellers to incorporate eBay's Equipment Financing Program into his auctions. Now, on purchases totaling \$2,000 or more, bidders can get credit from Direct Capital rather than immediately paying for the item. Sellers who offer financing don't have to pay a final-value fee, which can be as much as 8 percent of the selling price.

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Consider using such eBay services as Co-Op Advertising, the Keyword Program, and Equipment Financing to boost sales for a relatively small investment.

For a while, it didn't seem like John Stack would be able to save the family business he inherited from his father. But every year, A City Discount now celebrates two anniversaries: its founding as a secondhand equipment company and its resurrection—some 26 years later—as an eBay merchant.

There's now another Stack in the business. John's son Marty is the company's senior manager for new equipment. When it's time for his father to retire and pass along leadership, A City Discount will probably still be headquartered in the same shabby Atlanta warehouse. But if the company's growth progresses as it has during these past few years, the building is the only run-down thing Marty Stack will inherit. A City Discount, with annual sales of \$10 million, is a flourishing enterprise, thanks largely to eBay.

TITANIUM TALK

John Stack sells new and used restaurant equipment on eBay, and after five years on the auction site, he's figured out how to efficiently and inexpensively move merchandise to his winning bidders. Here, Stack talks about handling heavy freight shipments, drop shipping, and using freight calculators in his auctions.

Q: You ship some pretty big items out to your customers, and I want to get a better sense of how you accomplish that. How do you receive those big items? For example, how does a big fryer come into your warehouse?

A: It's a combination of us picking them up or our suppliers delivering them [to us]. When a used item comes in we'll pick it up out of a restaurant and just put it on a truck [and warehouse it here until it sells].

On the new side, merchandise is all drop shipped by our suppliers. We don't ever touch it.

Q: As you mentioned earlier, drop shipping merchandise is the preferable method because it's less time-consuming for you and your employees.

A: I don't have to build up an inventory of things that might not sell. We can just purchase what sells, so it frees up more money—my cash—to be used in different areas.

Q: When you ship out large used items, you're putting them on pallets and contracting with freight companies for delivery, correct?

A: Yes, those large used items are going to go out strapped on a pallet.

Q: How do you insure them?

A: We don't. On used items, trucking companies don't provide replacement insurance. The only insurance that's provided gives you like eight cents a pound. It's based on the weight of the item, not on the value of it.

Over the years we've had very, very few cases where the item is destroyed or unusable. The trucking company might put a dent in it, but they rarely make it unusable. And they'll usually pay something fair to have damaged goods repaired.

Q: So, catastrophic damage has happened so infrequently with the freight carriers that you contract with that it's worth the risk to send out items uninsured?

A: Right.

Q: And your customers are aware of that when they purchase from you? They know if their item is destroyed in transit, they're going to be reimbursed based on the weight, not what they paid for it?

A: Yes.

Q: How valuable do you think your integrated freight calculator has been to your business?

A: Priceless, I guess you could say. We wouldn't have been able to achieve the growth we've had without it.

Q: Is that because you think people wouldn't have bid on your auctions if they didn't know the total cost including shipping?

A: They might have bid, but a lot of them would have gotten upset when they won and then found out what delivery would cost.

The next enhancement to our freight system is customers will be able to get a delivery price into Canada that'll include the brokerage fees to get it across the border. Our present system will calculate freight costs to Canada, but it just doesn't include the duties and brokerage fees or the sales tax that might need to be charged. Our Canadian customers eventually will be able to put in their postal codes and get a delivered freight rate.

Q: How much can these added brokerage fees, taxes, and customs duties add to someone's cost?

A: It can add another 15 to 20 percent.

