

CAN THIS BUSINESS SUCCEED?

WHO: John Hoose, 43, Brighton, Michigan

WHAT: Auction It Today, selling customers' items on eBay.

PANEL OF EXPERTS: Contributing editors Jeff and Richard Sloan, founders of StartupNation, comment on what they see as the positives and negatives of Auction It Today's progress to date, and offer advice on what to improve on.

PHOTOGRAPHS BY ROY RITCHIE

GETTING MARKET VALUE

John Hoose was a mortgage broker who had something to sell on eBay. Turning a hobby into a multi-million dollar company, he has enjoyed a great start to his online auctioning business, which helps people to sell their goods on eBay. In just two years, his company has grown from one store to one hundred franchises across the country. But in an industry where there is new competition popping up every day, does his business have what it takes to succeed? **BY BRIDGET SAMBURG**

① Jeff: Solve problems you experience, drive the business by market needs. Hoose took his personal experience with eBay and saw the broader market need. He did not need to "invent" the need - he experienced it directly. This is a good start.

② Rich: This serves as a warning to the "mom-and-pop" outfits. If there's a growth market, competitors are going to enter the space and try to offer the service better, faster and cheaper.

FOR JOHN HOOSE, IT ALL STARTED WITH A HYENA skin. A friend suggested auctioning the skin on eBay, so Hoose, a mortgage broker, posted it for \$70. After watching a last-minute bidding war that shot the price of the skin up to \$400, Hoose was hooked. Online auctioning quickly became a hobby and then a near obsession. "You kind of get addicted to it," he admits.

When he realized that most of the 235 million eBay users were buyers, Hoose saw a business opportunity. Anyone could sell a product online once or twice, he figured, but the logistics of buying and selling could quickly become a burden that most people wouldn't want to deal with. Taking and uploading the photos, posting the item, monitoring the auction, and then packing and shipping each sale could be time-consuming and downright tedious. So, after seven years with a steady

banking job, Hoose decided to make a change, despite the obvious risks. He was motivated by "a love of business" and a natural desire to take chances and live outside the comfort zone. "I usually do things that most people wouldn't do themselves," he says. ①

In December 2004, with \$50,000 from his own savings, Hoose opened the first Auction It Today store in a strip mall in Brighton, Michigan. The town already had three other eBay drop sites, but they were mom-and-pop outfits that offered auctioning as a side ② business. Hoose wanted a sophisticated, professional store that was solely dedicated to helping people sell their goods. Surrounded by other stores and with plenty of foot traffic in the mall, Hoose was optimistic about his first store. But opening day came and went with little fanfare. His wife, Julia, and one sales

John Hoose got the idea for Auction It Today after he sold several taxidermy items on eBay.

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③ Lots of people would sell something at eBay but won't do it without an agent to help them, so I like the problem they are solving, as long as Hoose is actually simplifying the steps to sell merchandise at eBay and charges a palatable fee.

④ Franchising can be a great growth strategy. It works well when a business can be packaged into a "system" that other owners can use. The appeal is less execution risk. The downside is reducing direct control.

⑤ Hoose has built a website that communicates credibility and sophistication - brand values. But being so new, there will be significant marketing costs to create awareness among prospective franchisees.

associate were the only visitors. However, with low overhead and a staff of just three, the store quickly picked up in popularity. Within months, it was full of customers wanting to sell everything from cutlery to cars. People brought in their unwanted items because they were either short on time or patience and wanted a quick, easy sale, or else they needed help in using eBay. ③

As Hoose's business was growing, a customer inquired about the possibility of buying a franchise. After consulting a lawyer over the "laborious and time-consuming" details of setting up a franchise, Hoose agreed to the expansion of Auction It Today. Six months after his initial opening, Hoose had sold two franchises, both in Michigan. By May of 2006, that number had grown to more than 100 franchises across the country. There are currently 35 full stores (the rest are kiosks). Hoose owns one store and the franchising rights to all the others. ④

But because Auction It Today was a new business, it didn't have the name recognition that some other companies' franchises carried. ⑤

Also, he was having trouble reaching customers in more remote locations. Then Hoose thought of kiosks: self-contained units that could be set up in already-existing

businesses like hardware or grocery stores. Marked with identical corporate logos and offering the same service as the franchise locations, kiosks could meet all of the customer's needs but with much lower overhead. It was important for Auction It Today to properly train all or most of the host business's employees in order to maintain the consistency of service. Hoose contends that this training is a vital component of his company's success. The training offers the expertise that one time sellers or those just starting out don't have. They learn which search terms to use, how to create a product description and how to come close to naming the best price an item will fetch. They also receive general business advice, which can help them with their own, existing businesses. ⑥

The kiosks are sold for \$19,000, and franchise owners pay 2% to 4% in gross sales back to Hoose, with a cap of \$1,200 per month. (The franchises cost \$22,000, although the cost of opening a new store varies, depending on size and location, as well as the number of staff the franchisee wants to maintain.) Hoose says he's more interested in expanding the kiosks than franchising more stores, both for economic and marketing reasons, as the kiosks help to establish the



brand. So far, the concept has worked well, with 70 units in 16 states. Auction It Today even has one store in Australia and one in Kuwait, and is in the process of opening sites in Mexico, Ireland, and Dubai. Hoose notes that the Middle East is an untapped but emerging market, a place where people don't have garage sales but are becoming savvy with the Internet. ⑦

Sellers worldwide are apparently happy to pay for the convenience and peace of mind of having someone else sell their goods. For example, last spring, when St. Louis, Michigan, resident Stewart Feldman decided he wanted to sell his 2003 Mini Cooper, he went into his local Evans Drug Store, which had an Auction It Today kiosk in it. He had never used eBay, but he knew the concept. Even so, selling his car online through a local drugstore was a little unnerving at first. "To me, it was off the wall," says Feldman. But after visiting the kiosk and talking to the Auction It Today representative, Feldman warmed to the idea. It helped that he could withdraw his item if it hadn't reached his minimum asking price at the end of the ten-day auction period. In the end, though he was willing to take \$15,000, the car sold for \$17,900. Feldman was thrilled. He says the 10% he paid in commission to Auction It Today was comparable to a car dealer's price

but well worth it because of the service he received. The kiosk's staff even delivered the car they sold for him to its new owner more than two hours away. ⑧

That sort of customer satisfaction is igniting the business. Its first year in operation, Auction It Today grossed \$1 million. Hoose expects that number to have grown to between \$5 million and \$10 million for 2006. Hoose's closest competitor is iSold It, a major eBay drop-off business. But Hoose contends that with the addition of the kiosk operation, Auction It Today is in a class of its own. "We are cutting the path ourselves," he says. That said, iSold It is still the largest drop site, and there are other competitors, too. With \$44.3 billion in goods sold on eBay in 2005 alone, however, there is enough room for competition—at least for now. ⑨

Of course, all of these companies depend on the success of eBay. But although the mammoth online auction site shows no signs of slowing down, it hasn't partnered with any of the smaller companies that have blossomed in its wake. Instead Auction It Today maintains "Power Seller" status (only given out to those with more than \$1,000 dollars in sales each month) and has a high rating of at least 98% from customer satisfaction surveys and feedback. As Hoose

⑥ Love the kiosk concept as a low cost way to get market presence (and it's easier on the franchisees). However, it'll be important that the level of service is maintained.

⑦ Global expansion is a natural fit! The trick is controlling the process when you get overseas - it increases the demands on management and infrastructure. And everywhere Hoose goes, eBay is already there in a big way.

⑧ This is a consumer service business. These are great cases that can be highlighted in marketing the business to both customers and franchisees. It is vital to develop good systems to measure customer satisfaction.

⑨ iSold It had \$14.4 million of merchandise sold for the first quarter of 2006, which would be about \$5 million in revenue. But still, second movers have lots of advantages over first movers - just look at Microsoft...

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Left: An innovative kiosk drop-off system enabled Hoose to rapidly expand his franchises.

points out, this lets a potential buyer know that the seller is legitimate and has a good reputation, something that helps when the buyer is faced with so many choices.

Because there's such demand for Auction It Today's services, Hoose is able to add a hefty percentage to every eBay sale—about 38% for sales under \$500 and 30% for those over \$500. But Hoose says a customer can negotiate with Auction It Today representatives when selling larger items, such as the vehicle sold by Feldman. ⑩

It seems like a lot of money off the top for the seller. But Hoose says many people simply don't have the time or couldn't be bothered. "People want more money in their pockets, but they also want more time," says Hoose, adding that his business can give them both. That 38% commission includes taking photographs of the item as well as posting, selling, and shipping it. He says that single women, perhaps recently divorced or widowed, are frequent sellers. He points out that since many people don't want to have strangers traipsing through their home looking at the item they want to sell, they are happy to have someone else take care of the transaction. ⑪

After selling more than 100 items through Auction It Today, Gary Smith is convinced that he got a better price on his goods than he would have if he had sold them on his own. After his wife passed away in February 2006, Smith decided to sell some of the many items, such as toys and dolls, that she had collected. But between working full-time and keeping up with two teens, he didn't have the spare time to monitor each sale. Instead, he took doll collections, porcelain dolls, and Power Ranger figures to his local Auction It Today store outside Orlando, Florida. "We realized probably ten times what we would have at a garage sale," he says of the Power Rangers, which fetched about \$1,100 for 15 pieces. "It's almost like a consignment store, but it sells the things much quicker." Unlike Stewart Feldman, Smith went through a franchise rather than a kiosk, but says the appeal of the business was the service itself, not where he brought the goods. Either way, Hoose has managed to provide a high level of customer satisfaction, something that he will need in order to grow his company even more. The extensive training that is given to the host businesses and their employees

ensures that customer satisfaction is the same wherever you go.

Hoose says that about 60% percent of the items brought to Auction It Today are worth under \$3,000, including cameras, musical instruments, and auto parts. The remaining 40 percent are mainly big-ticket items such as cars, snowmobiles, motorcycles, and other vehicles. Not surprisingly, Hoose would like the company to primarily focus on the larger items.

He isn't concerned with the number of stores or kiosks open, but rather wants each and every store or kiosk to be successful and maintain quality control. "The world kind of sets limits," he says, adding that they plan to take the company anywhere that will support it. "Success breeds more success." But Hoose quickly adds, "We have to have stability." For him, that comes in the form of quality trained employees or representatives.

Hoose clearly wasn't expecting the company to grow quite so quickly. He admits he's been a little slow when it comes to the benefits packages and incentives he's able to offer his employees, but says this is something he's dedicated to changing in the near future. Although Auction It Today only has 20 employees in its Brighton, Michigan, office, he expects the company to at least double in size in the next year, mostly in the sales department (he plans to send more sales people into the field to go after those costlier items). He typically looks to hire people who are strong in one particular area, never expecting that someone can master everything. ⑫

Married with three children, a 16-year old son, an 11-year old daughter and a nine-month old baby boy, Hoose, a Michigan native, enjoys a successful business and a successful home life. When he isn't working, he likes to go big game hunting, hence the hyena skin that got him started in the business. Before he became a mortgage broker, he had worked for several years in the catering business, eventually owning and then selling two restaurants. He doesn't miss the eighteen-hour days that came with the territory. For now though, watching over a new company is an equally demanding job. But it's worth it. He believes that people's desire for more money without much hassle, along with basements full of unwanted purchases, will propel Auction It Today to the top of the industry.

⑩ The utility of the service will justify the added price. Bottom line for the consumer: the 30% or more of the sales price still nets them 70% of something they probably would not have got otherwise.

⑪ To break this business wide open, Hoose will need to reach his current target market effectively with marketing but also look for other, more scalable ways to lure new types of customers to the stores.

⑫ It's all about the team. A great idea can flounder without the right people, and a mediocre idea can flourish with a good team. This growth phase will be a delicate time for Hoose. Structure will be important.