

BARGAINTOWN.COM

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CASE DESCRIPTION

The case focuses on a (fictitious) small but growing website that competes with market giants such as eBay.com, Craigslist.com and many others. The entrepreneur behind Bargaintown.com is troubled by one aspect of his business – sellers who may be obtaining their products through illegal and/or illicit means. While the business is quite profitable, the entrepreneur (Lars Bobnock) wonders what, if anything, he can or should do about this potential problem. The primary purpose of the case relates to business ethics, and how a firm should respond to the potential of unethical and illegal practices. The case has a moderate level of difficulty (3-4), and is designed for 2nd to 4th year undergraduate students; it can be taught in one class session, or spread over two or more class sessions. Students can expect to spend 2-4 hours to complete the case, outside of normal class time.

CASE SYNOPSIS

Lars Bobnock, and his wife Tuula, had an idea and started a local or regional version of a website similar to eBay.com or Craigslist.com, and they called the business Bargaintown.com. A unique feature of Bargaintown.com was that buyer and seller could drop off/pick up items at the garage connected to the Bobnock home. Sales revenue for Bargaintown.com started to accelerate after several years, and Lars began to wonder whether or not some of the sellers on Bargaintown.com were actively engaged in criminal activities – namely stealing products from brick and mortar retail stores and then selling them on Bargaintown.com. Lars contemplates 5 different options as a way to deal with the possibility of his involvement in illegal, immoral and/or unethical behavior via Bargaintown.com.

CASE BODY

Introduction

“Man, sales are really starting to take off”. Lars Bobnock, founder and CEO of Bargaintown.com said this his wife, Tuula, as he looked at the quarterly sales for his small but growing company. Some of the regular sellers on Bargaintown.com seemed to be fueling this massive growth, but in the back of his mind Lars wondered about a few of these sellers. Where were they getting the products from that they were selling? From the listings on Bargaintown.com, at times some of these items seemed to be new and in perfect condition, still in the original packaging. How were these items obtained and why were they being sold? Lars hadn’t mentioned any of his concerns to his wife, Tuula, but increasingly he wondered if he should do something before it is too late.

Bargaintown.com: The Beginning Years

About 10 years ago, Lars started working as an electrical engineer for the local electrical utility. While Lars was an electrical engineer by training, he had also developed some strong skills in the area of software engineering and programming, based upon some of his work experience with the local electrical utility where he worked. In his spare time he was helping his wife, Tuula (a stay-at-home spouse), with a small side business they had started on eBay. Tuula

was selling various items that they no longer used, or items they saw at rummage sales, thrift stores and estate sales.

The items they purchased at various rummage and estate sales were typically grossly underpriced, and in turn Tuula and Lars would buy them, turn around and then sell them on eBay, sometimes for a very handsome profit. As the couple became more interested and involved in this side business, they started to talk about starting their own local or regional version of eBay. Could they make it easier for individuals to buy and sell items ? As an added feature, Lars and Tuula could help with the delivery (i.e., a seller could drop something off at the Bobnock house, and the buyer could then pick it up at their convenience). Otherwise the seller and buyer would arrange for their own shipping.

After doing some additional research, Lars and Tuula launched a website called Bargaintown.com, where they charged a 5% fee for anyone listing (and eventually selling) an item on their website. They also offered, at first, to allow the seller to drop off the sold items at their house (so the buyer could pick up the item at their convenience), and this was done at no cost. However as the company grew, more and more of the garage at the Bobnock house was being occupied by these items, so eventually they charged a flat fee of \$10.00 for this service (note: this is the column below labelled “Drop Fee”). Otherwise, the seller and buyer worked out the delivery arrangements on their own (i.e., either the item was shipped using normal methods, or the buyer and seller arranged on their own for transfer of the item)

In the first year sales started out slowly, but eventually word-of-mouth got around. After some local and regional advertising was done via traditional media (i.e., newspapers, radio stations, and a brief TV commercial) sales really started to take off:

Year 1	Overall Sales Revenue	5% Commission Drop Fee		Total
Quarter 1	\$ 1,411.27	\$ 70.56	NA	\$ 70.56
Quarter 2	\$ 3,936.33	\$ 196.82	NA	\$ 196.82
Quarter 3	\$ 7,449.49	\$ 372.47	NA	\$ 372.47
Quarter 4	\$ 12,014.56	\$ 600.73	NA	\$ 600.73
Yearly Totals	\$ 24,811.05	\$ 1,240.58	NA	\$ 1,240.58
<u>Year 2</u>				
Quarter 1	\$ 25,377.57	\$ 1,268.88	\$ 120.00	\$ 1,388.88
Quarter 2	\$ 33,469.03	\$ 1,673.45	\$ 710.00	2,383.45
Quarter 3	\$ 49,551.32	\$ 2,477.57	\$ 840.00	3,317.57
Quarter 4	\$ 88,479.12	\$ 4,423.96	\$ 1,290.00	\$ 5,713.96
Yearly Totals	\$ 196,877.04	\$ 9,843.86	\$ 2,960.00	\$ 12,803.86
<u>Year 3</u>				
Quarter 1	\$ 105,467.14	\$ 5,273.36	\$ 3,470.00	\$ 8,743.36
Quarter 2	\$ 151,598.22	\$ 7,579.91	\$ 3,900.00	\$ 11,479.91
Quarter 3	\$ 167,429.39	\$ 8,371.47	\$ 4,620.00	\$ 12,991.47
Quarter 4	\$ 201,469.04	\$ 10,073.45	\$ 5,730.00	\$ 15,803.45
Yearly Totals	\$ 625,963.79	\$ 31,298.19	\$ 17,720.00	\$ 49,018.19

In looking at the spreadsheet showing sales growth over the past several years, Lars noticed there was a definite uptick in the number of buyers and sellers who took advantage of his “drop off / pick up” service (labelled as “Drop Fee” in the spreadsheet above). For example, this service was used about 573 times during the 4th quarter of the most recent year, which averages between 6 and 7 times a day, 7 days a week. Why such an increase in this service, Lars wondered to himself ? Furthermore, would the neighbors start to complain if there was too much traffic in the neighborhood (and might they call the police or the city manager) ? Could Lars and Tuula contract with a local business (which is zoned as commercial, vs. residential) as a drop-off and pick up point ? Maybe one of the local equivalents of the “UPS Store” would be interested ? Lars also read about a mobile app called Roadie, which used Waffle House locations (and other retailers) as a point of drop off and pick for packages. Maybe something like that would work ?

Year 2	Drop Fees	# of Total Drops	Avg. Drops Per Week
Quarter 1	\$ 120.00	12	.92
Quarter 2	\$ 710.00	71	5.46
Quarter 3	\$ 840.00	84	6.46
Quarter 4	\$ 1,290.00	129	9.92
Yearly Totals	\$ 2,960.00	296	5.69

Year 3	Drop Fees	# of Total Drops	Avg. Drops Per Week
Quarter 1	\$ 3,470.00	347	26.69
Quarter 2	\$ 3,900.00	390	30
Quarter 3	\$ 4,620.00	462	35.54
Quarter 4	\$ 5,730.00	573	44.08
Yearly Totals	\$ 17,720.00	1,772	34.08

A Dilemma For Lars ?

In taking his analysis even a step further, Lars looked at some of the current listings on Bargaintown.com, and started to notice something he had thought about in the past: many of the items being sold on the website appeared to be brand new, in the original packaging. Furthermore it seemed like it was the same group of sellers who were offering these brand new items, in the original packaging. Other sellers clearly were selling used items, and advertised them as such. Where were these new items coming from, thought Lars ?

After a few minutes of searching on the web, Lars found an article from the Wall Street Journal he had remembered reading years ago: “*As Shoplifters Use High-Tech Scams, Retail Losses Rise*”, by Ann Zimmerman, Wall Street Journal, Wednesday 25 October 2006, pages A1 and A12.

This article talked about several examples of individuals, as well as groups who would target certain brick and mortar retailers for certain items, and then would sell these items online as a way to “monetize” their efforts (i.e., convert stolen goods to cash). In the article, for example, the case of William Swanberg was described. William used technology to print his own UPC stickers, which he would place over the existing UPC barcodes on expensive Lego sets in stores like Target. So, the sticker would scan for a \$10.00 price, but in reality the Lego set should’ve scanned for \$100.00. He was eventually caught, after he had stolen over \$ 600,000.00 of these Lego sets (and it was a federal crime, since he crossed state lines while obtaining these mispriced Lego sets from Target stores), was convicted and sent to federal prison. The article also talked about gangs of thieves who go after easy-to-steal and highly sought after products like baby formula and cordless power tools, just to name a few. These gangs develop daily “shopping lists” and thieves are sent to retail stores to steal the requested items. These items are eventually sold online, which has coined the term “efencing”, or fencing stolen goods online. Lars started to wonder whether or not some of his sellers on Bargaintown.com fit this profile, based upon the range of new items (in original packaging) which were regularly being sold by certain sellers.

As a basis of comparison, Lars did some searching, and found the eBay.com policy on stolen goods, which read as follows:

*The sale of **stolen property** violates state, federal, and international law, and we notify law enforcement of any attempts to sell **stolen property** on our site. We also support the investigation and prosecution of sellers who violate this **policy**. Make sure your listing follows these guidelines.*

[Stolen property policy - eBay](#)

<https://pages.ebay.com/help/policies/stolen.html>

When launching Bargaintown.com, a lawyer whom Lars had hired when he set up the LLC for his company suggested using a policy very similar to what eBay had developed. Lars had taken the lawyers advice, but still wondered if he was either breaking the law, or providing a mechanism for criminals to steal and make easy money from their illegal efforts. Was Lars engaging in immoral behavior? Was he unethical?

After doing some additional research, both Lars and Tuula recognized that there are different ways to define or think of ethics, such as egoism, utilitarianism, duty-based theories, and virtue ethics. While at church Lars thought about the golden rule (do unto others....) but also wondered if there was a professional set of ethics that would relate to business practices. Then he wondered how he would react if the local TV station suddenly showed up at his front door and started asking questions about Bargaintown.com possibly being involved in the selling of stolen goods. What would he say? What would his mother say if she saw Lars being interviewed on the local TV station? What would his customers think?

Options for Lars and Bargaintown.com

A lot of ideas were swirling inside of Lar's head as he contemplated a variety of possible scenarios related to his concerns. One thought which Lars wondered about was requiring sellers to sign something, indicating that what they (the seller) was listing on Bargaintown.com was not stolen, and legally could be sold. On a somewhat related note Lars also wondered if he could require sellers to provide written documentation as to where they obtained products. This would be particularly relevant if the items were being sold as new and in the original package, especially if there were multiple items being sold (either at once or over a period of time). What would be acceptable as written documentation, though, thought Lars?

Another (perhaps extreme) option which Lars had entertained was to just sell his business (Bargaintown.com) and be rid of his concerns about whether or not he was breaking the law, or if what he was doing was unethical and/or immoral. Given the acceleration in \$ sales revenue, though, Lars had some real reservations about selling the website and business at this point. Perhaps in the not too distant future, Lars wondered if he could quit his job as an electrical engineer for the local electrical company, and focus his energies totally on the business, given the growth of Bargaintown.com. Maybe franchising was on the horizon?

A third option which Lars had thought about was to discontinue the "drop off / pick up" service using the garage at his home, where sellers (for a fee) could drop off sold items, and then the buyer could pick these items up at their convenience. Might Lars and Tuula potentially be in possession of stolen goods at any point in time, albeit unknowingly, and could this be placing their business, and themselves, in legal jeopardy? But would this necessarily stop some of the sellers

on Bargaintown.com from trying to “efence” items that were illegally obtained ? Could Lars contract with a local business to serve as the drop off / pick up point for his customers ?

A fourth option occurred to Lars; should he just set up a meeting with the local county prosecutor to “put all the cards on the table” and ask for guidance from the highest ranking legal official in the county ? Or, might this raise some red flags in the mind of the county prosecutor ? Maybe Lars would be better off just meeting with his own lawyer to seek advice and counsel ?

A fifth option seemed to be lurking out there also – maybe doing some in-depth research on competitors such as eBay.com, Craigslist.com, and other smaller website and mobile apps as to their legal statements and policies regarding the sale of stolen goods via their websites and/or apps. Why” reinvent the wheel” if it already exists, thought Lars.

CONCLUSION

For each / all of these options, Lars first wanted to share his thoughts, ideas and concerns with his wife, Tuula, to see what she thought about all of this. Beyond that, he had no particular plan, but thought he (and Tuula) should systematically look at each of the 5 options he had considered, and should analyze the characteristics, advantages and disadvantages associated with each option. Then, and only then, could the future path for Bargaintown.com be determined.

REFERENCES

[Stolen property policy - eBay](https://pages.ebay.com/help/policies/stolen.html)

<https://pages.ebay.com/help/policies/stolen.html>

“As Shoplifters Use High-Tech Scams, Retail Losses Rise”, by Ann Zimmerman, *Wall Street Journal*, Wednesday 25 October 2006, pages A1 and A12.