

eBay: “The world’s largest online marketplace”- A Case Study

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Abstract

eBay, Inc. is the largest and most popular marketplace on the Internet, allowing members to buy and sell almost anything. Launched in 1995, about 147 million people now use eBay. An estimated 430,000 people in the United States make all or most of their living by selling on eBay. eBay’s online payment service, called PayPal, enables transactions nearly anywhere in the world. eBay proclaims “trust” between buyers and sellers as the key to the success of the marketplace.

eBay is the “The world’s Online Marketplace”, which is its positioning statement, and it means many things about the company’s identity. It enables trade on local, national and international basis, with a diverse and passionate community of individuals and small businesses. eBay offers an online platform where millions of items are traded each day. The objective at eBay was to “to develop the work ethic and culture of eBay as a fun, open and trusting environment and to keep the organization focused on the big picture objectives and key priorities.

The company market capitalization had surpassed that of even Amazon.com, making it the “world’s most valuable Internet retailer”. Pierre Omidyar, founder, is focused to achieve excellence in strategic management for improving the company’s strategy, sustaining the company’s growth and business performance, and potentially expanding from online auctions into general “etailing”, and to become “the world’s largest online mall”. This research paper intends to study the click and click business model of eBay, whose competitive advantage lies in its pure play strategy, a breakthrough from the traditional brick and mortar model, which leads to sustainable growth and a competitive edge over the other retailers.

Keywords: Online marketplace, etailing, work ethics, online auctions/platform/mall

Introduction:

eBay establishes itself as the “The world’s Online Marketplace” .Coincidentally, it is also the positioning statement of eBay,which itself means many things about the company’s identity, it enables trade on local, national and international basis, with a diverse and passionate community of individuals and small businesses, Bay offers an online platform where millions of items are traded each day.

According to company lore, the idea for eBay came from founder Pierre Omidyar’s wife, who wanted to trade Pez dispensers with other collectors over the Internet. In truth Omidyar had been pondering an Internet auction venture before he was ever aware of Pez mania. He says that he had been thinking about how to create an efficient marketplace-a level playing field, where everyone had access to the same information and could compete on the same terms as anyone else.”

After writing the code for the site, Omidyar launched eBay from his home in mid-1995.the concept of an Internet marketplace caught on so quickly that by the end of the year, eBay was getting a few thousand hits daily. Even more impressive the website was profitable from its inception. The objective at ebay was to develop the work ethics and culture of eBay as a fun, open and trusting environment and to keep the organization focused on the big picture objectives and key priorities.

Ebay went public in September 1998 at \$18 a share. By early march 1999, the stock was trading approximately b\$282 per share. The company market capitalization had surpassed that of even Amazon.com, making it the world’s most valuable Internet retailer.

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eBay's strategy

eBay community values are incredibly amazing since it focuses on trading millions of dollars on mere faith and trust among the community members. Its values can be sited as below,

“We believe people are basically good

We believe everyone has something to contribute

We believe that an honest, open environment can bring out the best in people.

We recognize and respect everyone as an individual.

We encourage you to treat others the way you want to be treated”.

These community values mean that the entire strategy lies in “trust” to build e-loyalty, for long-term profitable relationships, these set of core values encourages open and honest communication between its members.

Corporate strategy

The whole foundation of eBay, lies on the idea that practically anything that can be bought and sold can be facilitated through this Internet retailer, and this auction platform provider was implementing the concept of e-commerce even more forcefully.

“We help people trade practically anything on earth and conduct commerce through the Internet on a global basis” is certainly eBay's business model .This model was so effective and efficient in conducting transactions that more and more people preferred to trade online, so that they can enjoy the comfort at home or work-places and still buy things online just by the click of the mouse.

Today eBay users can bid anything from office equipments to real estate to cars. It is surprisingly true but perplexing that “Why has eBay prevailed, but others have failed?”

Though many of its successes resulted from its adaptive approach, eBay's accomplishments can also be explained by the company's consistent focus on two long-term goals that is “becoming the world's largest consumer to consumer online auction house and building out each of the five core strategies”. An analysis into these strategies reveal that eBay has applied sound strategic management as adopted from Porter and other Management experts .Its whole business revolves around creating an environment where everyone can come and transact without any second thought of being cheated or misguided in any form.

The first strategy is creating an insurmountable customer base, that is

(1) Establishing a larger user base

To attract new users, eBay established relationships with more than 60 websites, including America online which gave eBay the largest access to the largest user base on the internet and prevented AOL from entering the auction arena, bay also added dealer to person trading and addresses the fast growing and fragmented small business market by creating a feature called business exchange, where businesses could buy or sell new, used or refurbished business merchandise and professional tools in their local market.

The second strategy is:

(2) eBay concentrated on local and international trading

EBay has local sites in 53 U.S markets they deliver distinct regional flavors and give users the convenience of shopping locally for difficult –to ship items such as automobiles or antique furniture. The company also built a truly global presence with users in more than 150 nations.

The third strategy is:

(3) Creating a strong brand

For eBay's first few years it did not spend a single penny on marketing, relying instead on viral marketing and its ability to piggyback on competitors ceaseless (and expensive) efforts to retain

market recognition. The company's brand building shifted though with the arrival of new top professionals.

The fourth strategy is:

(4) Broadening the trading platform

By 1999, eBay's fourth year, a host of competitors had entered the online auction market, while eBay had the first entry advantage, not all of its competitors were small start ups, some including yahoo and Amazon were internet significant players with extensive, established user bases.

Ebay's response was to extend its core business into other attractive niches, the company introduced higher priced product categories, a move that would increase its profit margin dramatically while requiring minimal infrastructure and operating expenditures. The only caveat was that the company needed to develop a new skill set-to overcome this obstacle eBay made several acquisitions, starting with auction house Butterfield and Butterfield, the marriage of offline and online auction houses revolutionized the way that fine antiques and collectibles were bought and sold, allowing users to place real-time bids for items on offline auction house floors.

The fifth strategy is:

(5) Maintaining a strong community affinity

The company believes that fostering direct interaction between buyers and sellers with similar interest had enabled it to create loyal, active community of users,

As noted earlier this emphasis on community building has been present since eBay's founding.

(6) Continually enhancing site features and functionality

Because eBay's strategy is to be as hands-off as possible when it comes to transactions, the company has to provide a reliable and straight forward way for users to manage the process on their own, buying and selling on eBay are made easy for users to manage the process on their own. Sellers need do little more than write a compelling description of the item up for auction, provide a suitable photograph, and decide how many days the auction will last.

To enhance the payment component of the customer experience, an admitted difficulty for most buyers and sellers, bay acquired a company called Billpoint, whose online bill payment service facilitates credit card payment between buyers and sellers.

Applying the five external market tests

Ebay can be understood to a common man who is not aware of online retailing and sites which provide such facilities, which could be some of the market test like

Inimitability: is the resource hard to copy

eBay's resource could easily be copied

Durability: how quickly does the resource depreciate?

eBay is immersed in a very dynamic environment, thus the evolution and up gradation of its resources are crucial.

Appropriateness: who captures the value that the resource creates

eBay certainly holds the most valuable resource for auction-like sites: critical mass, the company extracts profits from its community, making it one of a handful of profitable Internet companies.

Substitutability: can a unique resource be trumped by a different resource?

A different format of seller/buyer transaction could undermine eBay's successful model-if eBay is not able to adapt quickly to the changing environment, which is unlikely. Auction aggregators also pose a significant threat.

Competitive superiority: whose resource is really better.

eBay has improved substantially in terms of committing internal resources to improving customer experience. Other sites such as yahoo or Amazon, might still have better services, but eBay has

the first mover advantage, and it has one resource in particular that cannot be replaced: a large and loyal community.

SWOT Analysis of eBay is carried out to get onto the finer and intricate details that eBay has adopted in such a shorter span of time to achieve profits in millions and is able to maintain a customer base that is again unbelievable.

The strengths of eBay could be identified like:

eBay is the leading global brand for online auctions. The company is a giant marketplace used by more than 100 million people to buy and sell all manner of things to each other. Pierre Omidyar, a French entrepreneur, was just 28 when he sat down over a long holiday weekend to write the original computer code for what eventually became an Internet megabrand. The brand has grown tremendously over the decade or so since its conception.

The company exploits the benefits of Customer Relationship Management (CRM). Buyers and sellers register with the company and data is collected by eBay on individuals. This is the Business-to-Consumer (B2C) side of their business. However the strong customer relationships are founded on a Consumer-to-Consumer (C2C) business model, where strong interrelationships occurs, for example where buyers and sellers leave feedback for each other, and whereby awards are given to the most genuine of eBayers.

The term 'eBay' has become a generic term for online auctions. Other companies with such a strong position include Hoover for vacuum cleaners, and Google for search engines. Today it is common to hear that someone is 'ebaying' or is an 'eBayer,' or that someone is going 'to eBay.'

Weaknesses of eBay were as below,

The organizations work tremendously hard to overcome fraud. However, the eBay model does leave itself open to a number of fraudulent activities. Often the company deals with such activities very quickly. Fraud includes counterfeit goods being marketed to unsuspecting (and suspecting!) eBayers. Other forms of theft could include the redistribution of stolen goods. It should be pointed out that fraud and theft are problems with individuals, not eBay. The weakness is that unscrupulous individuals can exploit the C2C business model.

As with many technology companies, systems breakdowns could disturb the trading activities of eBay. In the past both eBay and its payment brand Pay pal have encountered shutdowns and outages. As technology improves such a weakness is less and less of an issue.

Opportunities that eBay had were tremendous and invincible. They are:

Acquisitions provide new business strategy opportunities. eBay's latest venture is it has agreed to buy online telephone company Skype Technologies in a deal reported to be worth \$2.6 billion. Skype's software lets PC users talk to each other for free and make cut-price calls to mobiles and landlines. eBay has been buying up firms - including payment system PayPal - in an effort to increase the number of services it offers to consumers and keep its profits growing.

New and emerging markets provide opportunities (Market Development). Countries include China and India. There, consumers are becoming richer and have more leisure time than previous generations. Aspirating consumers are growing segments in many developing nations.

There are also still opportunities in current markets (Market Penetration). Western Europe and the USA still have many potential consumers that have yet to discover the benefits of online auctions. Remember products have life cycles that eventually come to an end, and such products are ideal for selling and buying on eBay.

Even a mammoth organization like eBay faces threats, which can be like as below:

As with many of the global Internet brands, success attracts competition. International competitors competing in their domestic markets may have the cultural experience that could give them a competitive advantage over eBay. In fact eBay has found that it has met with other USA-based Internet companies when trading overseas. For example, Yahoo! Dominates the Japanese market.

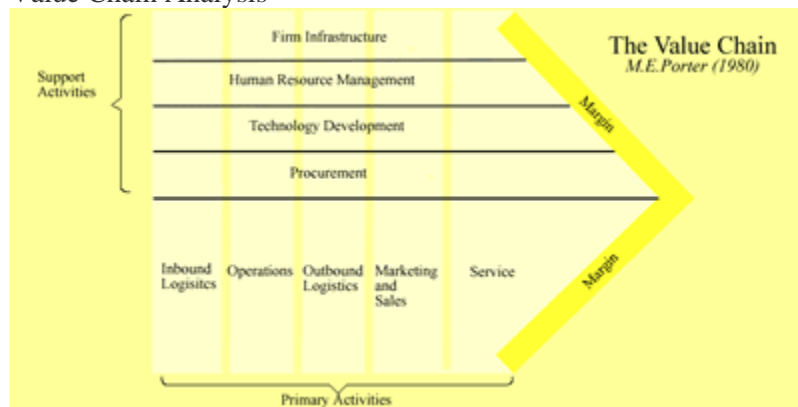
Attack by illegal practices is a threat. As with weaknesses above, the brand is attacked by unscrupulous individuals. For example e-mails are sent to unsuspecting eBayers pretending to come from eBay. Logos and the design of the pages look authentic. However they are designed so that you input private information that the thieves can use to take passwords and identifications. - So beware!

Some costs cannot be controlled by eBay. For example delivery charges and credit card charges. If fuel prices were to rise, the cost is passed on to the consumer in terms of delivery and postal fees. This could make the overall cost of an auctioned item too expensive. Similarly, if a credit card company such as Visa or Mastercard imposed a charge for online transaction, the total cost of the same items would increase with similar consequences.

Today, the eBay community includes more than a hundred million registered members from around the world. People spend more time on eBay than any other online site, making it the most popular shopping destination on the Internet.

Let's look at the way eBay manages to provide value at each stage of the value chain.

Value Chain Analysis



Value Chain Analysis

The value chain is a systematic approach to examining the development of competitive advantage. M. E. Porter created it in his book, *Competitive Advantage* (1980). The chain consists of a series of activities that create and build value. They culminate in the total value delivered by an organization. The 'margin' depicted in the diagram is the same as added value. The organization is split into 'primary activities' and 'support activities.' Primary activities includes inbound logistice, outbound logistices, marketing and sales, operations,and service, which are discussed as below:

Primary Activities

Inbound Logistics

eBay operated as an online venue for buyers and sellers, sellers listed items and provided descriptions, often including photographs, an auction was conducted, in which potential buyers could bid on the item on sale until a fixed time (unlike traditional auctions, which continued until no more bids were placed), the sellers specified the conditions of the auction, as well as the time the auction would close, bidding was often active as the auction neared closing time, sometimes driven by automated "sniping" programs that some buyers used their bid in just before the auction closed, so these created an interesting and involving environment

Operations

One incident, in 1997, there were forty categories of items for sale, the posting of antiques and collectibles had increased dramatically, and additional categories for these items were needed, eBay evaluated the items listed and developed many new listing categories, without even consulting the community, it doesn't have to bother about goods which are to be manufactured or assembled and individual operations, Bay was not bothered about the operations aspect of any goods, it only provided a virtual roof for enabling transactions.

Outbound Logistics

eBay acted as an online auction site so they need not be worried about goods being sent along the supply chain to wholesalers, retailers or the final consumer.

Marketing and Sales

eBay's fundamental challenge was to establish trust among remote and anonymous traders who might never interact again, it had a feed back system for building reputations, community members could use a number of tools to make their transactions secure. Most purchases on eBay were protected by an insurance policy administered by Lloyd's of London as part of the standard eBay service and protected at no charge to the buyer, high value transactions were protected by Tradenable, a third party escrow service company.

Sales outside the eBay marketplace were a concern for eBay an enterprise, since it did not receive fees for such off-site transactions. The company also believed such that off-site transactions deprived the participants of eBay's services in case of problems. eBay formed groups called "voices", they agreed to participate for one year without any compensation, it established a group for community support and relations, true customer orientated fashion, at this stage the organization prepares the offering to meet the needs of targeted customers. This area focuses strongly upon marketing communications and the promotions mix.

Service

EBay community flourished, this community was analogous to a real world society, in which people interacted with each other under a set of shared rules and expectations, this excludes all areas of service such as installation, after-sales service, complaints handling, training and so on.

Support Activities

Procurement

eBay need not be worried about procurement; (this function is responsible for all purchasing of goods, services and materials, the aim is to secure the lowest possible price for purchases of the highest possible quality. But, eBay only provides a platform for online trading to take place, doesn't take possession of the items being sold, this reduces inventory management costs.

Technology Development

EBay operated as an online venue for buyers and sellers; technology is an important source of competitive advantage. eBay uses online option to innovate, to reduce costs and to protect and sustain competitive advantage. This includes Internet marketing activities, lean manufacturing, Customer Relationship Management (CRM), and many other technological developments.

Human Resource Management (HRM)

Employees are an expensive and vital resource. An organization would manage recruitment and selection, training and development, and rewards and remuneration. The mission and objectives of the organization would be driving force behind the HRM strategy.

eBay's strategy of developing a community whose members are anonymous, trust among traders still prevailed, is indeed incredible,

Firm Infrastructure

This activity includes and is driven by corporate or strategic planning. It includes the Management Information System (MIS) and other mechanisms for planning and control such as the accounting department.

But eBay has created an online marketplace, it operated much like a newspaper-classified section, it facilitated person-to-person transactions but did not take possession of the items being sold.

Conclusion

eBay's strategy of providing a safe trading place on the internet, the eBay community has flourished, by not only providing an efficient medium for people to buy or sell items directly from or to a large member of people, it's a forum where buyers and sellers, develop reputations and in some cases, it can change people's lives. This case study was of interest to the authors because it was intended to analyze the case from a strategic viewpoint. This attempt requires more information and data, which could provide ground to understand its strategy in a better way,

which is an important area for the future researchers and analysts who wish to write case studies of giant e-tailers like eBay. We are not very much convinced as yet of the study as it required material that really could be of importance to researchers, probably that would provide direction for further research. Not, many case studies have been written by researchers on eBay, primarily research by Indian researchers in Indian context on online shopping is heavily lacking. Keeping that in mind we attempted to write this case study, which has ample scope for improvement and further research will add value undoubtedly.

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