

The Challenges Facing eBay 2008

Case study 15

Prepared by
Gustavo Hernandez
ID#: 200208884
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for
Don Ausman, Instructor
School of Business
Northern Alberta Institute of Technology

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1. Driving forces

What driving forces are operating in the online auction macro-environment? Is the combined impact of the driving forces likely to cause competitive pressures to strengthen or weaken? Are the driving forces acting to make the industry more or less attractive from the standpoint of future profitability?

The online auction industry has a strong increase in during the nineties when the internet use won every household and work use. EBay was one of the first companies in taking the advantage of the growing market thanks to the vision and business skill of Pierre Omidyar.

EBay has taken an important advantage face to its competitors under an efficient and continue growth through the driving forces that characterise this market. The most important driving forces are:

The growth in the use of the Internet. The development of the internet had a huge increase in the North America and European markets, then in Asia and emerging countries. Everyday more people are becoming users of the Internet; the use of the internet in the companies and educational institutions is now a fact and the Internet is more accessible then ever before. This is a driving force for the online auction industry because it creates new customers and suppliers. People in foreign markets will continue to be exposed to the internet and will begin to use it more often. This increase will be a driving force of change in the online auction industry.

The increase of the globalization. The Online Auction Industry had a boom in the United States; then, other market follows this tendency. The success and potential saturation, or at least a decrease in the rate of growth of this industry, has made some of the largest contenders branch out into the global community. For example, EBay has created, acquired, and began joint ventures in order to dominate in the foreign markets. EBay has created sites specifically for foreign customers. Starting in Canada, eBay began to make sites that tailored specifically to a region. EBay also acquired foreign auction sites to broaden their customer base. Finally, in order to acquire one of their largest foreign presences, eBay began a join venture with NEC to launch eBay Japan. EBay's foreign markets will be crucial to their continuing success. But

EBay competitors also are moving quickly, Amazon has also begun to branch out into the global market. Amazon invested \$300 million to make Canadian, European, and Japanese sites. The innovation in the market. This is used to spark interest in buyers to buy your product or use your service. Firms in the online auction industry are constantly looking for ways to market their service and make it the easiest to use. Every company is constantly adding new aspects to build customer loyalty and build a sense of community around their business. In addition, they design specific web sites for specific market, for example the real state or cars. They were created with buyers and sellers in mind to make finding the right product easy and simple. The combined impact of these competitive forces produces two opposite effect; first of all they increase the demand, relaxing the pressure in the market. In other side, the outline auction business is a relatively easy market to enter; companies do not need a huge capital, stocks, etc. the three shown drivers forces help to attract potential new competitors. These driving force help to develop the market but they increase the strength in the competitive pressures. The combination of these effects could be seeing in the EBay financial trend, an increase in the competition with a decreasing in the profitability of the business.

Excellent answer – interesting the importance of values and community!

2. Key success factors

What do you see as the key success factors for firms in the online auction industry?

What differences do you see between the KSFs for online auction members and the KSFs for online retailers?

The most important KSF in the online auction industry are:

Technology: the Internet expansion, technological advance in the communications, secure transactions are part of the success factors in the growth of the online auction industry. These technological advances/improvements have allowed to increase the amount of people in the market as well as to increase the transaction number.

Opportunities: the auction process gives a strong opportunity to both sellers and buyers; for those people considered “bargain hunters” and “Hobbyist” the online auction market has created a huge opportunity face to the global market and the higher spread of opportunities. In addition, the online auction business has given an opportunity to many small business entrepreneurs seller that they have developed their small business producing a multiple benefit for producer and buyers. Finally, those considered “professional seller” and “Corporate and Power Sellers” had the opportunity of being increased their market due to the globalization concept. In addition, they have experienced a reduction in the final cost of the product due to the higher efficiency and lower fixed cost.

Skills and capabilities. The business has won in skill over the years; different skill works as success factors in this business. Some of them are the better understanding of the buyers and sellers interactions, the development and better use of online tools, the online marketing efficiency.

A better known business for global buyers and sellers. The most important sites (e.g.: EBay, Amazon) both have well-known names. They have used many media avenues in order to get people to visit their site. Both eBay and Amazon have created alliances with other large companies to create awareness of their company. EBay has partnered with companies such as AOL, IBM, and Compaq in equal opportunity alliances to help spark awareness. Amazon has also created alliances with companies such as Border’s Books with the same idea in mind. A company must also be well respected. It is easier to keep a customer then to obtain a new one.

Personalized Customer Service. The advance in the technology and good strategies policies, have helped to create a customer community. Most of the companies have personalized customer service components including forum, feedback, qualification, etc. By providing personalized customer service any online auction site can give their customers a feeling that they are appreciated and cared about.

Overall Low Costs. The online auction business can keep costs low; the industry can continue to offer low listing prices and fees for their sellers and buyers. This will ensure that customers will not leave their firm because of high costs.

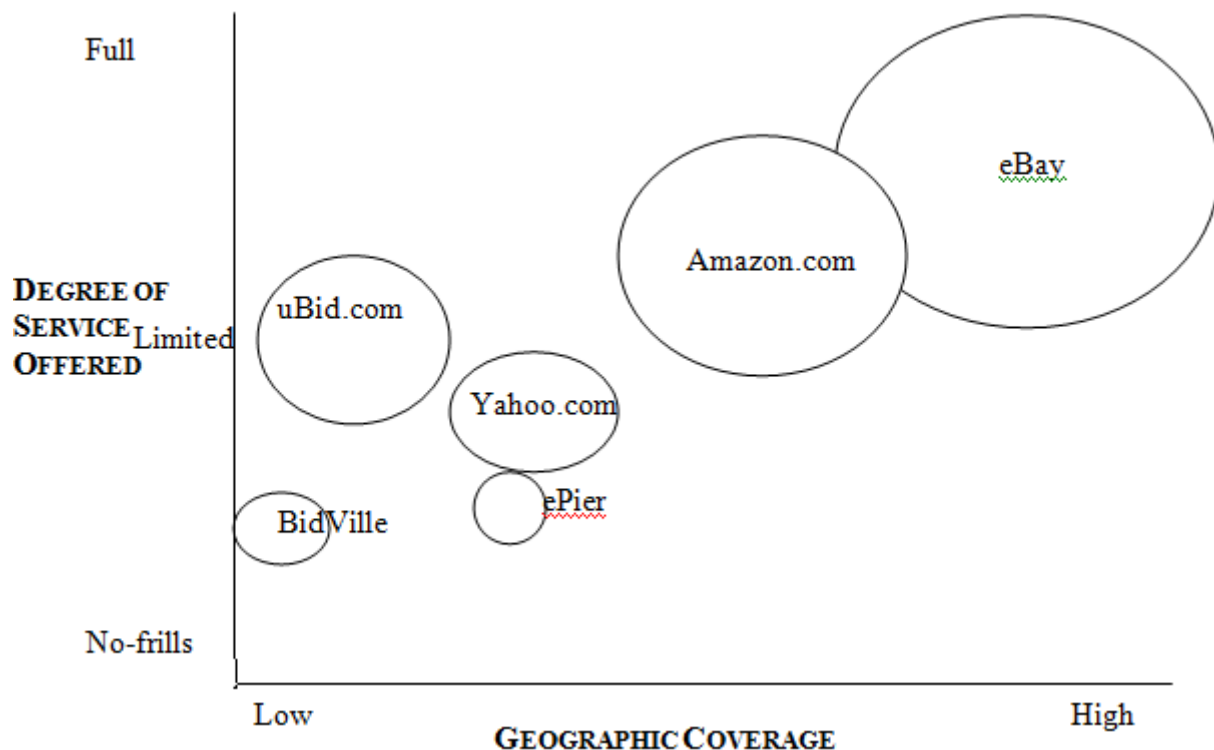
Instead of the online auction and the online retail share success factors, the impact of some of them is different for both industries. For example, the success factor opportunities present some differences for both markets.

Very complete answer – good key success factors!

3. Strategic group map

What does a strategic group map reveal about the positions of the major players in the online auction industry? Is eBay in a good position on the map? Why or why not? Who are eBay's closest competitors?

The strategic group map for the online auction industry is represented in the following figure.



The strategic group map has a dynamic behaviour, the evolution of the companies as result of their different strategies shows the trend; the figure before shows a snapshot of this trend. In this snapshot, the eBay position is very good keeping in mind the comparison with its competitors. Nevertheless, some of these competitors have a higher speed evolution. For example Amazon is showed in an inferior position but its evolutionary speed is higher that eBay speed.

In addition, this snapshot does not clearly show the degree of service offered by the companies trying of differentiates between them. For example eBay focuses on creating a sense of community within its company. They pride themselves in leading their customers through the buying and selling process from beginning to end and beyond. Another defining characteristic is geographic coverage.

I agree, with the use of these two variables, exactly where you have positioned the companies.

4. SWOT analysis

What does a SWOT analysis reveal about eBay's situation? Just how attractive is the company's situation and position?

Some of the eBay's strengths are the leading global brand for online auctions. The company is a giant marketplace used by more than 100 million people buying and selling products. It is capable of attracting vast audiences with diverse needs. The brand has grown tremendously over the decade or so since its conception. In addition, the company exploits the benefits of Customer Relationship Management. Buyers and sellers register with the company and data is collected by eBay on individuals. The strong customer relationships are founded on a Consumer-to-Consumer (C2C) business model, where a strong interrelationship occurs. The term 'eBay' has become a generic term for online auctions. eBay gives a whole new meaning to

the word middle man business. It provides an extra ordinary tool to sellers and buyers. Diversity of products is other important characteristic of eBay offering specific services for each market. Some weaknesses are the fraud. The organization works tremendously hard to overcome fraud. However, the eBay model does leave itself open to a number of fraudulent activities including the redistribution of stolen goods. Other weakness is the systems breakdowns; it could disturb the trading activities of eBay. In the past both eBay and its payment brand Paypal have encountered shutdowns and outages. As technology improves such a weakness is less and less of an issue. In addition, shipping has been one of the biggest problems in eBay; sellers establish a low price to be on top of the list but they increase the shipping price. This trick erodes the trust in the online auction.

eBay has also many opportunities. Acquisitions provide new business strategy opportunities. eBay has bought Skype Technologies¹. 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 (e.g.: 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 (e.g.: the BRIC countries where consumers are becoming richer and have more leisure time than previous generations). There are also still opportunities in current markets. Western Europe and the USA still have many potential consumers that have yet to discover the benefits of online auctions. eBay is increasing the business of selling directly products; there, eBay has an opportunity of increasing businesses and try to gain market in a sector where the competence perform better.

eBay should address some threats. As with many of the global Internet brands, success attracts competition. The online auction market offer many opportunities to new entrepreneurs; it does not require a huge capital to enter. In addition, illegal practices are a threat. Other threats are that some costs cannot be controlled by eBay (e.g.: delivery charges and credit card charges).

¹ eBay has sold the 70% of Skype to Silver Lake, an investor's group for \$2B in 2009. On August 9th, 2010, Skype filed with the SEC to raise up to \$100 million in an initial public offering

As summary, the company is in a good position, but it should design some strategies for improving the constant threat that is increasing over the time. In addition, at the same time that the internet expands its resources, it gives opportunities to new entrants, competitors and stresses some weaknesses such as illegal practices.

eBay does have many strengths, but it seems there are forces in the market that are pushing hard against this business model. Can eBay withstand these forces? Is there a disturbing trend towards e-tailing that might threaten the model?

5. Other strategies

Referring to Chapter 6, which of the "other strategies" (other than the five generic ones) do you think eBay should consider? What actions would you recommend to Mr. Donahoe to improve eBay's competitive position, especially its market position vis-à-vis key rivals, its long-term financial performance, and its relationships with key customers?

In this very attractive market, many companies will try to enter in it and to capture a portion of the market share. These companies come with some innovation trying to obtain some competitive advantage. eBay should be attentive on these companies and in case of seeing an opportunity, it could be a strong benefit for both the eBay's acquisition of the small company.

This could be in a new segment, area or an area and segment that eBay already participate, but with a new and attractive approach. Acquisition and vertical integration have worked with different results for eBay. Between 1998 and 2008 eBay has acquired around of 28 small companies including companies with specialization in online advertising, online auction, electronic commerce, online shopping, etc for more than \$ 8.5B. This strategy allows to eBay remaining in the market as a leader and integrates other markets around the world (France, India, China, Germany, Russia, etc).

Outsourcing strategy looks not at all appropriate for eBay, but for those very specific problem.

The risk is big enough in a very competitive business and where to enter in the market is relatively easy for new companies.

eBay should develop different market strategies for the different businesses that the company develops.

The online auction market looks to be in behaviour close to the mature market, given up terrain to the online sales. Other segments such as rent and cars appear to have more room for growth.

eBay needs to do a better job in controlling the content, it needs to block certain illegal and fake auctions and at the same time be able to protect copyrighted material. This weakness limits the rate of growth in the main eBay's industry, the online auction. In addition eBay should better work with emails transaction avoiding phishing emails (e.g. add electronic signature).

eBay should do more transparent the shipping charge. It will help to be fairer the process and avoid surprises and problem in the cross-evaluation between sellers and buyers.

Other potential improvement is to standardize the payment method; this will help both sellers and buyers in being more reliable the service.

eBay 2009 report shows a increase in the performance in two segments, marketplaces and payments, but an decrease in Communications, with a positive balance.

For the geographic analysis, eBay also has reverted its negative trend in 2008 for a positive trend in 2009 with better results in the international market over the US market.

The users have increased at a similar rate over the last decade and the merchandise volume has increased significantly in 2009 in relationship with the previous year.

The financial statement shows that the main source of financing is the issue of shares; in addition the net income per share has significantly increased in 2009 showing a recovery process after a 2008 and beginning of 2009 difficult for the company.

Conclusions

eBay had an explosive growth; then, the market maturation, competitors, globalization, etc, put a lot of pressure to eBay business. Face on these challenges, the management at eBay had

taken some good directions; others with a high risk that they have produced some negative effects in the eBay's business. This enabled some yellow flags at eBay due to the neutral or negative value of many financial and business trends. eBay needed major changes and to redirect the business in an evolving market. Then, eBay had a restructuring process, new management with new vision and decisions refocusing the eBay business through strategic acquisition (e.g.: Bill me Later, dba.dk & bilbasen.dk), sales (e.g.: Skype (partially)) and development of new business segments (e.g.: eBay express, SM Apps.); this new direction and its strategies appear to have taking a better direction heading eBay to the previous positive trends.

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Excellent work Gustavo.

Yes, eBay operates with a business model that reflects consumer confidence in that it will work for the transaction, but eBay needs to clean up the operating problems it has encountered, then counter this consumer trend towards fixed price e-tailing.

Grade = 10/10

Last assignment and I must say it has been a pleasure reading your work. I would like to meet with you prior to the end of the month.