

Case 22: eBay

Expanding into China*

By 2010, eBay faced the challenge of surviving in the Asian market. Like many U.S. Internet companies, eBay had repeatedly tried to broaden its reach in Asia, where local rivals had strong ties to users. With Asia's population exceeding 3.8 billion, more than half the world's population, and Internet usage in the region skyrocketing at 620 percent,¹ eBay needed to develop a strategy that would successfully adapt to Asian local markets and compete with Taobao, China's top auction site, and other major local competitors.

In March 2010, eBay announced that PayPal would team up with China UnionPay in a bid to expand in the market dominated by Chinese rival Alipay. Alipay, a unit of Taobao's parent company, Alibaba Group, had 300 million users, three times as many as PayPal in China.² The partnership would give customers of China UnionPay, a national electronic-payment network, the ability to make Internet purchases from websites overseas. Before this partnership, PayPal offered Chinese consumers and businesses two types of accounts: one that allowed domestic transactions in Chinese Yuan and a second that permitted purchases abroad through dual-currency credit cards. The new program allowed customers with a UnionPay credit or debit card to make overseas purchases.³

eBay announced in December 2010 that PayPal would set up an international ecommerce hub in Chongqing, China, as the company aimed to boost exports from the nation by helping merchants conduct faster cross-border trade. PayPal agreed with Chongqing's municipal government to set up the center to offer foreign exchange settlement, telesales, training, verification, and other services.⁴

"Helping local companies connect with global customers would boost eBay's transaction volume from China more than 80 percent to \$4 billion," eBay CEO John Donahoe, said in 2010.⁵ eBay had been counting on PayPal and local partnerships to expand revenue from China after failing to gain a foothold to compete against Alibaba Group. "eBay plans to focus on exports and cross-border trades involving China instead of competing in the domestic market," he added.

eBay

Since its inception in 1995, eBay has enjoyed strong revenue growth and been a dominant player in the online auction industry. The company posted net income of \$1.8 billion and revenue of \$9.15 billion for 2010 (see Exhibit 1.) "We are driving strong global growth at PayPal and strengthening our core eBay business. And we are innovating quickly in areas such as mobile, which is helping to position us at the forefront of trends shaping the future of shopping and payments," commented CEO John Donahoe.

Exhibit 1: Income Statements (in thousands, except per-share amounts; year-end December 31)

	2006	2007	2008	2009	2010
Net revenues	\$5,969,741	\$7,672,329	\$8,541,261	\$8,727,362	\$9,156,274
Cost of net revenues	1,256,792	1,762,972	2,228,069	2,479,762	25,564,667
Gross profit	4,712,949	5,909,357	6,313,192	6,247,600	6,591,607
Operating expenses:					
Sales and marketing	1,587,133	1,882,810	1,881,551	1,885,677	1,946,815
Product development	494,695	619,727	725,600	803,070	908,434
General and administrative	744,363	904,681	998,871	1,418,389	1,079,383
Provision for transaction and loan losses	266,724	293,917	347,453	382,825	392,240
Amortization of acquired intangible assets	197,078	204,104	234,916	262,686	189,727
Restructuring	—	—	49,119	38,187	21,437
Impairment of goodwill	—	1,390,938	—	—	—
Total operating expenses	3,289,993	5,296,177	4,237,510	4,790,834	4,538,036
Income from operations	1,422,956	613,180	2,075,682	1,456,766	2,053,571
Interest and other income, net	130,017	154,271	115,919	1,422,385	44,867
Income before income taxes	1,547,057	750,851	2,183,564	2,879,151	2,098,447
Provision for income taxes	(421,418)	(402,600)	(404,090)	(490,054)	(297,486)
Net income	\$1,125,639	\$ 348,251	\$1,779,474	\$2,389,097	\$1,800,961
Net income per share:					
Basic	\$ 0.80	\$ 0.26	\$ 1.37	\$ 1.85	\$ 1.38
Diluted	\$ 0.79	\$ 0.25	\$ 1.36	\$ 1.83	\$ 1.36
Weighted average shares:					
Basic	1,399,251	1,358,797	1,303,454	1,289,848	1,305,593
Diluted	1,425,472	1,376,174	1,312,608	1,304,981	1,327,417

eBay’s founder, Pierre Omidyar, envisioned a community built on commerce, sustained by trust, and inspired by opportunity. The company’s mission was to “enable individual self-empowerment on a global scale” and employ “business as a tool for social good.” Omidyar cited “trust between strangers” as the social impact tied to eBay’s ability to remain profitable.

The company’s unique business model, which united buyers and sellers in an online marketplace, had attracted over 221 million registered users. eBay enabled e-commerce at multiple levels (local, national, and international) through an array of websites, including eBay Marketplaces, PayPal, Skype, [Rent.com](#), and [Shopping.com](#). The company’s range of products and services had evolved from collectibles to household products, customer services, automobiles, and so on. The variety of products attracted a range of users that included students, small businesses, independent sellers, major corporations, and government agencies. Despite eBay’s outstanding growth performance, the company still faced a number of challenges in both domestic and international markets. The low entry barriers in the

online marketplace attracted a number of large dotcom competitors, including Amazon, Yahoo, uBid, and Overstock. Historically, the company had acquired other online competitors, such as Stubhub (tickets), but established players such as Yahoo and Amazon posed a major threat to eBay's market share and ability to sustain profitability. Still, eBay's top management felt that the company would end up as a specialty business, an idea suggesting that it would face little threat from these major competitors. The company had no plans for further big acquisitions but intended to expand and identify synergies within existing business lines.

eBay acknowledged its inability to grow and compete in certain international markets. The company created localized sites in 24 countries and established a presence in Latin America through its investment in MercadoLibre.com. However, eBay's numerous attempts to penetrate the Asia Pacific market, specifically China and Japan, ended in failure, with the company pulling out of Japan and buying out Chinese start-up Eachnet, essentially canceling years of invested work. According to many analysts, the company's recent interest in its South Korean rival [Gmarket Inc.](http://Gmarket.com) and joint venture with Beijing-based Tom Online were further indications that eBay couldn't compete in these countries. To remain successful and enjoy the same financial performance as it had in the past, eBay needed to develop an effective strategy to compete in major Asian markets and mitigate the risk of existing local competitors.

Evolution of Auctions

Traditional Auctions

According to Greek scribes, the first known auctions occurred in Babylon in 500 BC. At that time, women were sold on the condition of marriage, and it was considered illegal for daughters to be sold outside auctions. Auctions evolved during the French Revolution and throughout the American Civil War, where colonels auctioned goods that were seized by armies.⁶ Although there were various types of auctions, they all provided a forum where sellers could find buyers or hobbyists who were looking to purchase rare items and collectibles. Auctions were considered one of the purest markets, since buyers paid what they were willing to spend for an item, thereby determining the true market value of the item. Over time, auction formats continued to evolve, and through technological advances and improved communication they found a new home—the Internet.

Online Auctions

The primary difference between traditional and online auctions was that the online auction process occurred over [the Internet](http://theInternet.com) as opposed to at a specific location

where both buyers and sellers were present. Online auctions offered strategic advantages to both parties that were not typically available in traditional auctions. Buyers could select from millions of products and engage in multiple auctions simultaneously. Given the massive inventory of an online auction market, items were usually available in multiple auctions, allowing buyers to compare starting bid prices and search for better prices. Sellers were exposed to millions of buyers, since more buyers had access to the Internet and felt comfortable making purchases online. The net impact was increased price competition, since there were more buyers who were willing to purchase items at a higher price. Thus, the Internet gave buyers and sellers access to a marketplace that spanned the world.

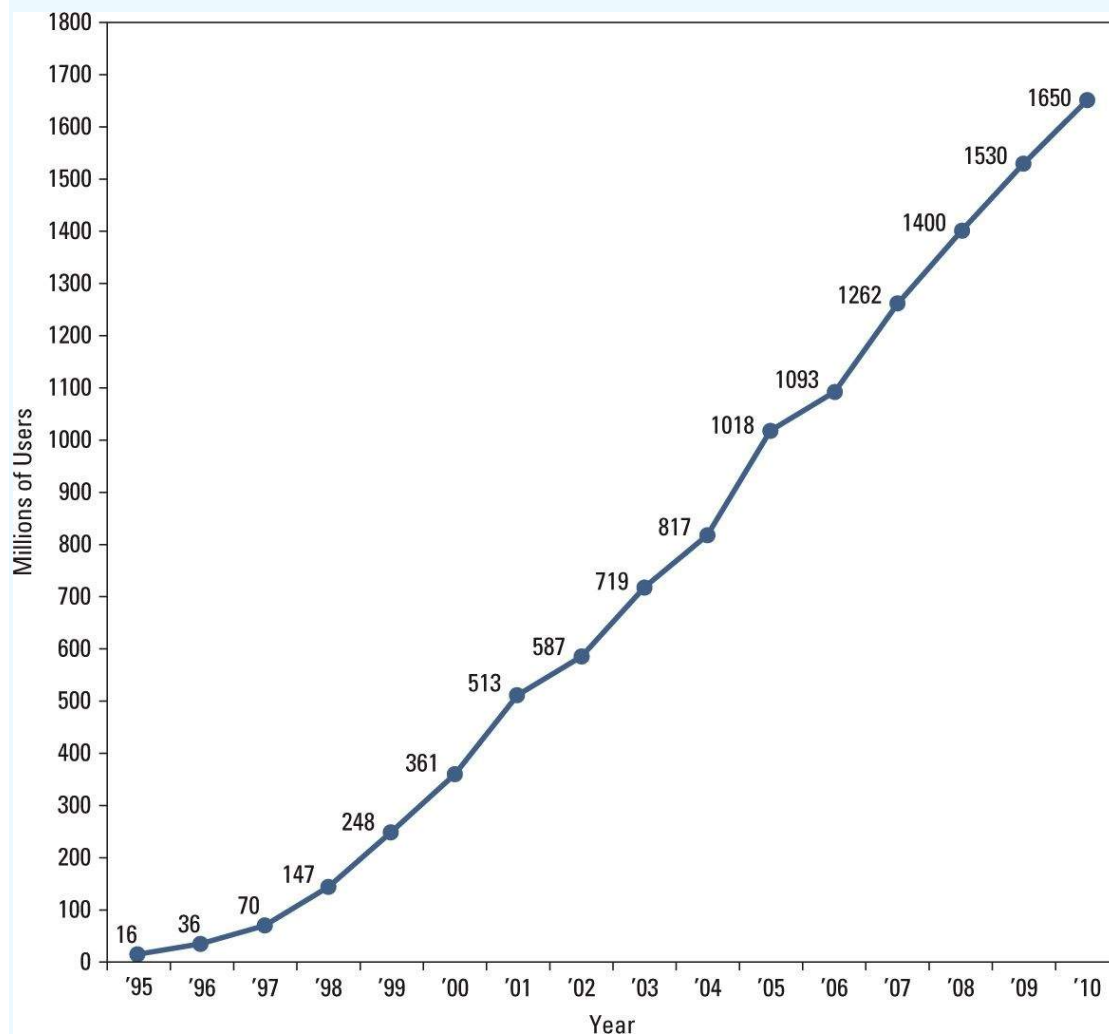
Online auctions also offered the following strategic advantages:

- **1. *No time constraints.*** A bid could be placed at any time.
- **2. *No geographic constraints.*** Sellers and buyers could participate from any location with Internet access.
- **3. *Network economies.*** The large number of bidders attracted more sellers, which attracted more bidders, and so on. This created a large system that had more value for both parties. Online auctions also allowed businesses to easily sell off excess inventory or discontinued items. This was done through either business-to-business (B2B) or business-to-consumer (B2C) auctions. Offering products and services in an online auction helped small businesses build their brand and reputation by establishing a devoted customer base. Finally, some businesses used the online marketplace as an inexpensive yet effective way to test-market for upcoming products.

E-Commerce

Although Vannevar Bush originally conceived the idea of the Internet in 1945, it wasn't until the 1990s that the Internet became overwhelmingly popular. According to Internet World Stats, in September 2010 there were over 1.9 billion Internet users in over 150 countries. [Exhibit 2](#) shows Internet usage growth between 1995 and 2010.

Exhibit 2: Internet Usage Growth, 1995–2010



Source: Internet World Stats. 2010. Global Village

Online. www.internetworldstats.com/.

As of 2010, North America was considered the region most penetrated by the Internet, with approximately 77.4 percent of the population already online. However, Internet usage growth between 2000 and 2010 was considerably less in North America than in other regions. The regions with the highest Internet usage growth were developing countries, where penetration was low, such as Africa, Asia, Latin America, and the Middle East. Considering close to 80 percent of the world's population resides in these areas, it is inevitable that Internet usage growth will continue to increase dramatically in these regions. [Exhibit 3](#) shows world Internet usage and population as of December 2010.

Exhibit 3: World Internet Usage and Population Statistics, 2010

World Regions	Population (millions)	Population (%)	Internet Usage (millions)	Percent Penetrated	Usage as % of World	Usage Growth, 2000–2010 (%)
Africa	1,013.8	14.8	110.9	10.9	5.6	2,357.3
Asia	3,834.8	56.0	825.1	21.5	42.0	621.8
Europe	813.3	12.0	475.1	58.4	24.2	352.0
Middle East	212.3	3.3	63.2	29.8	3.2	1,825.3
North America	344.1	5.0	266.2	77.4	13.5	146.3
Latin America	592.5	8.4	204.7	34.5	10.4	1,032.8
Australia	34.7	0.5	21.3	61.3	1.1	179.0
Total	6,845.5	100.0	1,966.5	28.7	100.0	444.8

Source: Internet World Stats. 2010. Usage and Population Statistics.www.internetworldstats.com.

Although Asia constituted approximately 57 percent of the world’s population, its penetration rate was only 21.5 percent. Compared to other regions with high usage growth rates, such as Africa and the Middle East, Asia invested more in its technology infrastructure and contained by far the most current Internet users, making it a more attractive market. [Exhibit 4](#) provides more detail on how Asia stacks against the rest of the world in terms of Internet usage.

Exhibit 4: Internet Usage in Asia

Regions	Population (millions)	Internet %	Internet Users (millions)	Usage % Penetrated	Usage as % of World	Usage Growth, 2000–2008 (%)
Asia	3,834.8	56.0	825.1	21.5	42.0	621.8
Rest of world	3,010.8	44.0	1,141.4	37.9	58.0	362.7
Total	6,845.6	100.0	1,966.5	28.7	100.0	444.8

Source: Internet World Stats. 2010. Usage and Population Statistics.www.internetworldstats.com.

As the usage growth of the Internet increased, so did the popularity of e-commerce. E-commerce, or electronic commerce, was the concept of conducting business transactions over the Internet. As in the case with online auctions, e-commerce eliminated boundaries such as time and geography, allowing businesses and customers to interact with one another constantly. As more users were exposed to the Internet, they became comfortable with the idea of conducting transactions online. In correlation with Internet growth usage, revenue generated through e-commerce increased dramatically since the 1990s.

E-commerce grew rapidly in regions outside North America as well, especially in Asia since China’s admission into the World Trade Organization (WTO) on December 11, 2001. Induction in the WTO allowed China to conduct business with

other nations more freely by reducing tariffs and eliminating market and government impediments.

Company Background

Computer programmer Pierre Omidyar founded the online auction website in San Jose, California, on September 3, 1995. Omidyar was born in Paris, France, and moved to Maryland with his family when his father took on a residency at Johns Hopkins University Medical Center. Omidyar became fascinated with computers and later graduated from Tufts University with a degree in computer science. While living and working in the San Francisco Bay area, he met his current wife, Pamela Wesley, a management consultant, who later became a driving force in launching the auction website. The couple's vision was to establish an online marketplace where people could share the same passion and interest as Pamela had for her hobby of collecting and trading Pez candy dispensers.⁷ Omidyar also envisioned an online auction format that would create a fair and open marketplace, where the market truly determined an item's value. To ensure trust in the open forum, Omidyar based the site on five main values:

- 1. People are basically good.
- 2. Everyone has something to contribute.
- 3. An honest, open environment can bring out the best in people.
- 4. Everyone deserves recognition and respect as a unique individual.
- 5. You should treat others the way you want to be treated.

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On Labor Day weekend in 1995, Omidyar launched Auction Web, an online trading platform. After the business exploded, Omidyar decided to dedicate more attention to his new enterprise and work as a consultant under the name Echo Bay Technology Group. When he tried to register a website for his company, Omidyar discovered Echo Bay was unavailable, so he decided to use the abbreviated version *eBay*, which also stood for "electronic bay area." The company's name was also selected to attract San Francisco residents to the site and prompt them to buy and sell items.

Initially, the company did not charge fees to either buyers or sellers, but as traffic grew rapidly, Omidyar was forced to charge buyers a listing fee to cover Internet service provider costs. When Omidyar noticed that the fees had no impact on the level of bids, he realized the potential for profitability of his business. To handle and manage the company's day-to-day operations, Omidyar hired Jeffrey Skoll (B.A.Sc. University of Toronto, MBA Stanford University). Skoll was hired as the company's first president, and he wrote the business plan that eBay later followed from its emergence as a start-up to its maturity as a financial success. The two worked out of

Skoll's living room and various Silicon Valley facilities until they eventually settled in the company's current location in San Jose, California.

By the middle of 1997, less than a year under the name eBay, the company was hosting nearly 800,000 C169C170 auctions a day.⁸ Although the rapid expansion of eBay's traffic caused the company to suffer a number of service interruptions, the site remained successful and continued to gain the confidence of its strong customer base. Skoll remained president until early 1998, when the company hired Meg Whitman as president and CEO. At the time, the company had only 30 employees and was solely located in the United States; in a decade the number of employees went up to over 15,000. In September 1998 eBay launched a successful public offering, making both Omidyar and Skoll instant billionaires. By the time eBay went public, less than three years after Omidyar had created the company, the site had more than a million registered users. The company grew exponentially in the late 1990s and, based on its 2010 performance, indicated no sign of stopping. [Exhibit 5](#) highlights the company's recent growth performance by segments.

Exhibit 5: eBay Growth (in millions, year-end December 31)

Supplemental Operating Data	2008	2009	2010
<i>Marketplace Segment:</i>			
Gross merchandise volume*	\$59,650	\$57,206	\$61,819
<i>Payments Segment:</i>			
Net total payment volume [†]	\$60,146	\$71,607	\$91,956
* Total value of all successfully closed items between users on eBay Marketplaces trading platforms during the period, regardless of whether the buyer and seller actually consummated the transaction.			
† Total dollar volume of payments, net of payment reversals, successfully completed through eBay payments network or on Bill Me Later accounts during the period, excluding the payment gateway business.			
Source: eBay Inc., www.ebayinc.com .			

Whitman stepped down as the president and CEO of the company on March 31, 2008. Through a decade of her successful leadership, Whitman had managed to build an increasingly diversified portfolio of businesses and transformed a company with just 30 employees and \$4.7 million in revenue into one of the fastest-growing companies in history, with revenues of \$8.5 billion. “With humor, smarts and unflappable determination, Meg took a small, barely known online auction site and helped it become an integral part of our lives,” said Omidyar, chairman of the board, about Whitman, who remained on the board of directors.⁹ Both Omidyar and Whitman were confident that the new CEO, John Donahoe, was a good choice to lead eBay. Donahoe joined the company in 2005 as president of eBay's largest division, Marketplaces, and within three years managed to double the revenues and profits for

this business unit. Before joining eBay, Donahoe served as the CEO of Bain & Company, an international consulting firm based in Boston.¹⁰ “I’m extremely confident in John’s skills and the abilities of John’s veteran management team,” Meg Whitman commented on the transition.¹¹

Shortly after his election, Donahoe announced fundamental changes targeted at improving the overall buying experience and protection for eBay users. The changes ^{C170}^{C171}included lowering fees for listing items and raising minimum standards for the sellers, as well as offering incentives and discounts to reward sellers with the best buyer satisfaction ratings.¹² In addition, in June 2008 the company improved buyer and seller protection on eBay. First-time buyers were protected for 100 percent of an item’s purchase price, while sellers would receive improved protection when items were paid for with PayPal.¹³ Donahoe was confident that these changes would significantly reinforce healthy and frequent trading at eBay.

eBay Platforms

eBay’s overall strategy comprised three primary components: products, sense of community, and aggressive expansion. All three components evolved around the various geographic and specialty platforms the company introduced.

Product Categories

eBay had an array of product categories and trading platforms that offered a range of pricing formats, such as fixed pricing. Relatively new for the company, establishing a fixed-price format allowed eBay to compete directly with major competitors such as [Amazon.com](#) and penetrate new market space. Before fixed pricing, selling prices were solely determined by the highest auction bid, and this took days or weeks depending on the length of the auction. eBay’s different trading platforms also offered distinct services and target-specific market niches, which allowed eBay to broaden its customer base. The platforms included:

- *PayPal*: Founded in 1998 and acquired by eBay in 2002, PayPal enabled individuals to securely send payments quickly and easily online. PayPal was considered the global leader in online payments, with tens of millions of registered users. PayPal’s president, Scott Thompson, expected revenue to double to \$6 billion to \$7 billion by 2013. He also predicted that 75 percent to 80 percent of eBay transactions will be done through PayPal by 2013, up from 69 percent in 2010.¹⁴
- *Rent.com*: Acquired by eBay in February 2005, [Rent.com](#) was the most visited online apartment listing service in the United States, with more than 20,000 properties listed.

- *Skype*: Acquired by eBay in October 2005, Skype was the world's fastest-growing online communication solution, allowing free video and audio communication between users of Skype software. By November 2009, Skype connected more than 480 million registered users.¹⁵

Sale of Skype: eBay's acquisition of Skype was expected to enhance the customer experience by improving communication between buyers and sellers. When it acquired Skype, eBay said it hoped the service would support its auctions and its PayPal payment service by letting buyers and sellers discuss transactions. But eBay users were not so chatty. In November 2009 eBay sold Skype to a group led by Silver Lake Partners, a private equity firm in Silicon Valley. The deal was made at \$2.75 billion with eBay retaining a 30 percent stake. Mr. Donahoe said eBay did not regret having bought Skype when company executives believed eBay was in a mortal struggle with Google, which was also pursuing the service. He said the spinoff would allow eBay to focus on its core e-commerce and online payment businesses and avoid extra distractions. "We don't regret having done this at all. We compete in a dynamic market, and you have to move quickly and take risks," Mr. Donahoe said. "When we bought Skype we thought it had synergies with our other two businesses, and it turns out it did not. But it also turned out that it's a great stand-alone business."¹⁶

In May 2011, Microsoft made an agreement to buy Skype for \$8.5 billion from Silver Lake. eBay said it will earn more than a 50 percent return from the firm's initial ^{C171}^{C172}investment of \$2.6 billion in Skype six years ago with the latest Microsoft deal. "With this sale, we have realized a total return of \$1.4 billion on our original investment in Skype" said John Pluhowski, a spokesman for eBay.

Considering that eBay had bought Skype in a heavily criticized deal in 2005 and was considered a failed acquisition, the latest Microsoft agreement turned out to be good news for eBay making eBay one of the big winners in the Microsoft and Skype deal.

- *Online classifieds*: By January 2009, eBay had the world-leading portfolio of online classifieds sites, including Intoko, Gumtree, LoQUo.com, and mobile.de, as well as Netherlands-based Marktplaats.nl.¹⁷ In 2007 eBay expanded its classifieds business through its acquisition of Kijiji.¹⁸ In October 2008 eBay further diversified its classifieds portfolio by acquiring Den Bla Avis and BilBasen, providers of successful classifieds businesses in Denmark, for \$390 million. "We are the global leader in classifieds, with top positions in Canada, Australia, Germany, Japan and the United Kingdom, and sites in more than 1,000 cities across 20 countries," said CEO John Donahoe after the latest acquisition.¹⁹

- • *Shopping.com*: With thousands of merchants and millions of products and reviews, [Shopping.com](#) empowered consumers to make informed choices, which drove value for merchants.
- • *Stubhub.com*: StubHub was an online marketplace for selling and purchasing tickets for sports events, concerts, and other live entertainment events.
- • *eBay Express*: eBay Express behaved like a standard Internet shopping site but gave sellers access to over 200 million buyers worldwide. Sellers could design product categories within minutes, and buyers could purchase from multiple sellers by using a single shopping cart.
- • *eBay Motors*: This specialty site was considered the largest marketplace for automobile buyers and sellers. Buyers could purchase anything from automobile parts to new or antique vehicles.

The use of product categories such as eBay Express and eBay Motors provided further depth in eBay's product offerings and enabled the company to target a broader market.

Sense of Community

The underlying key to all eBay sites and trading platforms was creating trust between sellers and buyers. The company created "community values," and this was why eBay users were willing to send money to strangers across the country. The Feedback Forum was created in February 1996 and encouraged users to post comments about trading partners. Originally, Omidyar handled disputes between buyers and sellers via e-mail by putting the disputing parties in touch with each other to resolve the issue themselves. He soon realized that an open forum where users could post opinions and feedback about one another would create the trust and sense of community the site required. Buyers and sellers were encouraged to post comments (positive, negative, or neutral) about each other at the completion of each transaction. The individual feedback was recorded and amended to a user profile, which ultimately established a rating and reputation for each buyer and seller. eBay users could view this information before engaging in a transaction. The company believed that the feedback forum was critical for creating initial user acceptance for purchasing and selling over the Internet and that it contributed more than anything else to eBay's success.

Aggressive Expansion

To compete effectively and create a global trading platform, the company continued to develop in U.S. and international markets that utilized the Internet. With intense competition in the online auction industry, eBay aimed to increase market share and

revenue through acquisitions and partnerships in related and unrelated businesses. For example:

- • In June 2000 eBay acquired [Half.com](#) for \$318 million.
- • In August 2001 eBay acquired MercadoLibre, Lokau, and iBazar, Latin American auction sites.
- • On August 13, 2004 eBay took a 25 percent stake in Craigslist, an online central network of urban communities.
- • In September 2005 eBay invested \$2 million in the Meetup social networking site.
- • In August 2006 eBay announced international cooperation with Google.
- • In January 2007 eBay acquired online ticket marketplace Stubhub for \$310 million.
- • In June 2010 eBay acquired RedLaser, a mobile application that would let customers scan bar codes to list items faster on its online auction site and to compare prices.²⁰
- • In December 2010 eBay acquired Milo, a leading local shopping engine that would provide consumers access to accurate, real-time, local store inventory and pricing, giving them even more choice and flexibility when shopping online.²¹
- • In December 2010 eBay acquired Critical Path Software Inc., a developer of smartphone applications, to accelerate its lead in mobile commerce.²²

• **Company Business Model**

- eBay's business model was based on a person-to-person marketplace on the Internet where sellers conveniently listed items for sale and interested buyers bid on these items. The objective was to create a forum that allowed buyers and sellers to come together in an efficient and effective manner. The business model overcame the inefficiencies of traditional fragmented marketplaces, which ^{C172}[C173](#) tended to offer a limited variety of goods. According to former CEO Meg Whitman, the company started with commerce and what grew out of that was a community, essentially creating a community-commerce model.²³ The company's success relied primarily on establishing a trustworthy environment that attracted a large number of buyers and sellers. As eBay's reputation grew, so did the number of buyers and sellers, keeping the company in line with Omidyar's original vision. However, as new competitors entered the online auction business and the

popularity of the Internet increased, eBay tweaked its business model to accommodate the changes in the fast-paced environment.

- The company was aggressively expanding globally and looking for new products and services to offer to customers. It was also looking closely at the kind of merchants who sold on eBay. In the beginning, eBay focused on a consumer-to-consumer business model, but since some of the individuals became small dealers, the model changed to a mix of consumer-to-consumer and business-to-consumer. The sellers wanted to maintain their business on eBay, since it was their most profitable distribution channel. eBay wanted new ways to generate revenue as a result of more small dealers and businesses selling their products through the company's website.
- eBay generated revenue through three main channels: marketplaces, payments, and, until 2009, communications. Marketplaces, which generated revenue by charging sellers a fee for every item they sold, accounted for over 65 percent of the company's revenue. As of December 2010 marketplace revenue was approximately \$5.7 billion of the company's \$9.15 billion total revenue. Another \$3.4 billion of the company's revenue came from fees charged through electronic payments made through the company website, primarily via PayPal. The newest source of revenue, until November 2009, was communications (Skype), which produced \$620 million of the company's revenue. Although free, eBay's communication software generated revenue through its premium offerings, such as making and receiving calls to and from landline and mobile phones, as well as voice mail, ring tones, and call forwarding. [Exhibit 6](#) shows the company's recent revenue performance by type.

- **Exhibit 6: Net Revenues by Type (in thousands, except percentage changes)**

	Year Ended December 31, 2008	Percentage Change from 2008 to 2009	Year Ended December 31, 2009	Percentage Change from 2009 to 2010	Year Ended December 31, 2010
Net Revenues by Type:					
Net transaction revenues					
Marketplaces	\$4,711,057	(5)	\$4,461,845	8	\$4,800,193
Payments	2,320,495	14	2,641,194	23	3,261,314
Communications	525,803	9	575,096	—	—
Total net transaction revenues	7,557,355	2	7,678,135	5	8,061,507
Marketing services and other revenues					
Marketplaces	875,694	(3)	849,169	8	920,434
Payments	83,174	86	154,751	13	174,333
Communications	25,038	81	45,307	—	—
Total marketing services and other revenues	983,906	7	1,049,227	4	1,094,767
Total net revenues	\$8,541,261	2	\$8,727,362	5	\$9,156,274
Net Revenues by Segment:					
Marketplaces	\$5,586,751	(5)	\$5,311,014	8	\$5,720,627
Payments	2,403,669	16	2,795,945	23	3,435,647
Communications	550,841	13	620,403	—	—
Total net revenues	\$8,541,261	2	\$8,727,362	5	\$9,156,274
Net Revenues by Geography:					
U.S.	\$3,969,482	—	\$3,985,068	6	\$4,214,215
International	4,571,779	4	4,742,294	4	4,942,059
Total net revenues	\$8,541,261	2	\$8,727,362	5	\$9,156,274

- Source: eBay Inc., www.ebayinc.com.

In addition to the primary revenue sources, there were specific elements of eBay's business model that made the company a success. eBay's dominance of the online auction market and the large number of buyers, sellers, and listed items were primary reasons for eBay's tremendous growth. The trust and safety programs, such as the Feedback Forum, continued to attract and retain new and current eBay users. The cost-effective and convenient trading, coupled with the strong sense of community, added further value to the company's business model. However, as the company continued to grow and new trends evolved, eBay had to continue to adjust its model to remain competitive. [Exhibit 1](#) presents the company's consolidated income statement.

International Expansion

As competition intensified in the online auction industry, eBay expanded its international presence in an effort to create an online global marketplace. Gradually, eBay localized sites in the following countries:

- • *Asia Pacific*: Australia, China, Hong Kong, India, Malaysia, New Zealand, Philippines, Singapore, South Korea, and Taiwan.
- • *Europe*: Austria, Belgium, Denmark, France, Germany, Ireland, Italy, Netherlands, Poland, Spain, Sweden, Switzerland, and the United Kingdom.
- • *North America*: Canada and the United States.

In many of the international websites, eBay provided local-language and -currency options to gain popularity and ensure the sense-of-community feeling. In most cases, eBay expanded its business by either acquiring or forming a partnership with a local company. This strategy helped eBay better understand local cultures and ensure that the company was meeting specific local needs. This approach proved successful with the company's equity investment in MercadoLibre.com, which targeted Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Mexico, Panama, Peru, Uruguay, and Venezuela. At the end of 2006, MercadoLibre.com reported 18 million registered users who performed 15.8 million transactions worth \$1.1 billion.²⁴ Other notable international growth acquisitions are listed below.

Asia Pacific

- • Acquired China-based Eachnet for approximately \$150 million. eBay's failure to manage the company resulted in its recent partnership with communications company Tom Online.
- • Acquired all outstanding shares of India's Baazee.com, which later became eBay India.
- • Acquired Korean rival Internet Auction Co. by purchasing nearly 3 million shares. Acquisition has not proved successful due to intense competition from top Korean auction site GMarket.

Europe

- • Acquired Alando auction house for \$43 million, a company that later became eBay Germany. Alando was previously considered Germany's leading online trading company. Germany became eBay's second-largest market, accounting for 21 percent of the company's total listings.
- • Acquired Dutch competitor Marktplaats.nl, which had 80 percent of the Netherlands market share.
- • Acquired Sweden's leading online auction company, Tradera.com, for \$48 million.

- Acquired Denmark's leading online classifieds businesses, Den Bla Avis and BilBasen, for \$390 million.²⁵

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For the most part, eBay was successful in expanding in Europe and Latin America, where it was able to quickly adapt to local needs through its partners. The company was also successful in countries it expanded to from the ground up, such as Canada and the United Kingdom. In 2007 the United Kingdom accounted for 15.5 percent of eBay's total listings. By engaging the local community in these countries, eBay customized its sites to meet specific local needs while providing access to the online global community.

eBay was considered the leader in each of its markets with the exception of Japan and China, in which it struggled repeatedly to gain market share. In 2002 eBay was forced to pull out of Japan due to rising costs and intense competition by rival Yahoo Japan. eBay also faced fierce competition in Korea, where GMarket, another investment of Yahoo, dominated the market.

Despite its lack of success in local Asian markets, eBay continued its attempts to expand into the region, recognizing the tremendous growth potential that was C174 C175 available. In June 2006 eBay formed a joint venture with PChome Online in Taiwan. PChome Online was an Internet service provider in Taiwan, with more than 10 million members.²⁶ The company offered services such as Internet portal, e-commerce platform, and telecommunications. The move was expected to provide eBay with the local e-commerce expertise it needed to launch a new trading website that catered to the needs of Taiwan's Internet users.

In 2006 eBay emphasized its commitment to the Chinese e-commerce market by announcing a new joint venture with Beijing-based Internet Company Tom Online Inc. Tom Online, which primarily sold cell phone add-on services, such as ring tones and avatars, put in \$20 million for a 51 percent share and management control of eBay's online China site, Eachnet.²⁷ In 2002 eBay had purchased a 30 percent stake in Eachnet and within a year bought out local investors. Central management control of Eachnet was maintained in eBay's San Jose, California, location. Many believed the move to partner with Tom Online was a result of eBay's failure to adapt to local needs and successfully compete with China's online auction market leader Taobao, which controlled approximately 70 percent of the market. Jack Ma, the chief executive of Alibaba.com, Taobao's parent company, believed eBay's failure in China was due to an inability to build a community effect in the country, which, according to Ma, begins with customer satisfaction. Ma also felt that since eBay had to adhere to a global platform, meeting specific local needs was difficult because changes at a

global level had to be approved in the United States, which further limited the company's ability to produce a website tailored to the Chinese market.²⁸

In April 2009 eBay secured agreements to buy a 67 percent stake of South Korea's Gmarket in a deal estimated to be worth \$1.2 billion. The move was part of Donahoe's effort to increase revenue in coming years. It was expected that Gmarket would help eBay's push into Asia.²⁹

Competitors

As eBay's product offerings and pricing formats evolved, so did its range of competitors. Originally, the company faced competition from alternative auctions or other venues for collectors, such as flea markets and garage sales. However, as the company grew and introduced fixed pricing, the range of competitors included large companies like Walmart and Kmart that also had retail websites. eBay's product platforms, like eBay Motors, put the company in direct competition with auto dealers and other online auto sites, such as Autobytel. Still, eBay faced the harshest competition from major online companies, including Yahoo and Amazon, which also had online auctions that rivaled eBay's.

Yahoo!

eBay's larger online competitor was Yahoo, which also had a strong global presence, particularly in Asian markets. Yahoo originally started as a search engine and quickly evolved to include additional products and services, such as Yahoo! Mail, Yahoo! Maps, and Yahoo! Messenger. The company also offered e-commerce services through Yahoo! Shopping, Yahoo! Autos, Yahoo! Auctions, and Yahoo! Travel. Like eBay, Yahoo's e-commerce sites allowed users to obtain relevant information and make transactions and purchases online. However, Yahoo's business model primarily focused on generating revenue through search advertising. In the United States, in response to potential threats from web giant Google, Yahoo and eBay formed an alliance in which Yahoo utilized eBay's payment system, PayPal, and eBay gained additional advertising through Yahoo searches. Still, Yahoo posed a major competitive threat in foreign markets, particularly the Asia Pacific area, through its partnerships with GMarket and Taobao.

GMarket

Yahoo's stake in Korean auction site GMarket proved successful, with more than 17.2 million unique visitors. Founded in 2000, GMarket was a Korean online auction and shopping-mall website that generated its revenue by charging a fee based on selling

price.³⁰ Like Taobao, GMarket offered fixed prices and provided an option to negotiate prices with sellers on an exclusive basis. This allowed buyers to conduct deals instantly instead of waiting until bids were completed. GMarket also offered cheaper listings. These options, along with constant new features, allowed GMarket to dominate the Korean online auction industry.³¹ GMarket frequently introduced new marketing initiatives to provide sellers with various options to attract new customers. GMarket grew financially powerful in 2006 when it launched its IPO and Yahoo purchased a 9 percent stake in the company.

In 2009 eBay decided to secure an interest in its rival and was granted approval to purchase a combined 67 percent stake in Gmarket from Interpark Corp. and its chairman. In May 2010 eBay announced that it intended to work with Gmarket's founder to expand Gmarket's presence in Japan and Singapore. Lorie Norrington, president of eBay Marketplaces commented, "This joint venture is a sign of our continued commitment to help grow and lead ecommerce across Asia by offering more opportunities for sellers and extraordinary buying experiences for consumers."³²

Taobao

In 2005 Yahoo entered a strategic partnership with Alibaba.com, Taobao's parent company, which created an instant threat in the Chinese market. The move created one of the largest Internet companies in China, one with a leading position in business-to-business e-commerce, consumer e-commerce, and online payments. Like GMarket, Taobao offered buyers and sellers quick and convenient ways to conduct business. Its instant messaging and fixed price arrangements allowed transactions to be conducted quickly. In 2006 the company partnered with Intel to offer customers a wireless platform. This further improved communication and convenience when customers were^{C175}^{C176}conducting transactions. In 2011 Taobao was eBay's largest competitor in China, controlling over 80 percent of the Chinese online auction market.³³

In early 2010 eBay announced the partnership of Paypal with China UnionPay, a local intrabank card system operator, which would make it accessible for customers to make online purchases from overseas. This move was made to challenge Alipay, a unit of Alibaba Group that controlled about 50 percent of the market. This partnership would allow international retailers to sell to a large base of Chinese customers, who, combined, held 2.1 billion China UnionPay cards.³⁴ "After years of being the export hub for the world, now China is open for business as an import e-commerce market," said Scott Thompson, president of PayPal. "PayPal's partnership with China UnionPay removes an important friction point that exists across borders, and we are

thrilled to eliminate the payments barrier so merchants can welcome millions of new Chinese customers to their sites.”³⁵

Amazon

Despite not having a huge presence in the online auction industry, Amazon was still considered a fierce online global competitor. Amazon started as Earth’s biggest bookstore and rapidly evolved to selling everything, including toys, electronics, home furnishings, apparel, health and beauty aids, groceries, and so on. Still, books, CDs, and DVDs accounted for more than 65 percent of the firm’s sales. Although Amazon had a large international presence, the company’s linkage to brick-and-mortar shops in the United States made it a greater threat locally than in foreign markets. Amazon’s international local sites were in Canada, the United Kingdom, Germany, Japan, France, and China. Despite its large online presence, Amazon scaled back its online auction business, cutting staff and shutting down Livebid, as part of an overall corporate restructuring.

The Future of eBay

eBay had a number of opportunities in which it had already taken action. By 2011, eBay had made a number of strategic acquisitions that included [Rent.com](#), international classified websites, [Stubhub.com](#), and [Shopping.com](#). These acquisitions added and complemented eBay’s product offerings and further diversified the company’s targeted market. With increased competition from Google and other major online companies, eBay had to continue to diversify and provide depth in its product offerings to remain competitive. Creating options and targeting distinct market niches would enable eBay to distinguish itself from competitors. This was particularly important because, as e-commerce and Internet usage rates continued to grow, so would the market opportunity for eBay. Because of its market-leading brand, eBay was in a unique position to capture a significant share of the market at an early stage. eBay could also expand its existing products and services, such as PayPal. The product was relatively new and had the potential to grow and attract new customers, especially in international markets. Expanding PayPal into international markets would enable eBay to provide a simple way to conduct transactions across market borders. Considering the growth potential in developing markets, such as those in Africa, Asia, and the Middle East, expanding PayPal would attract many new customers, thus increasing eBay’s revenue base. In line with e-commerce growth, as more customers felt comfortable with conducting transactions online, PayPal had the potential to be the preferred form of payment over the Internet.

However, for eBay to capitalize on these opportunities, the company would have to overcome the challenges of expanding into large foreign markets such as China and Japan. With almost 77 percent of the North American population using the Internet and only a 21.5 percent usage rate in the Asia Pacific area, eBay had a tremendous opportunity to expand and gain new customers. Considering that the Asia Pacific region had more than 50 percent of the world's population and was experiencing some of the largest online usage growth percentages in the world, tapping into this market was critical for eBay to expand.

eBay's operations in China remained small compared to Alibaba Group and other Chinese e-commerce companies, but, like PayPal, the company had refocused its energies on export-oriented merchants in China who wanted to reach overseas buyers on its international websites.³⁶ Experts viewed eBay's strategy of forming a partnership with former rival Alibaba Group as the best way to generate sales from China. All hopes were on PayPal's acceptance by China partners who were looking to expand international sales. It was critical for eBay to partner with local Chinese companies rather than going alone in the world's biggest Internet market in order to proceed in the local market.

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