

## Plan of Action of eBay

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**ABSTRACT:** *As the development of Internet and the increase in Internet users, online shopping becomes popular among the world. This essay will investigate one of the famous e-commerce companies in the world: eBay. We will identify its business model, marketing mix and some problems it faces. Thus, we could give suggestions to its further development.*

**KEYWORD:** *eBay, e-commerce, business model, marketing mix*

### Introduction

E-commerce refers to business activities that use information network technology as the center and commodity exchange as the center; it can also be understood as the activities of conducting transactions and related services through electronic transactions on the Internet, intranets and value-added networks. The commercial activities using the Internet as a medium all belong to the category of e-commerce.

We would like to investigate one of the successful e-commerce company in the world: eBay and make a Plan of Action for it to overcome the challenge it faces in the future. The main purpose of this essay is to analyze the business model and some strategies they used to help create a Plan of Action in the future. Another reason is to understand how an e-commerce company works in the real world.

### Background

eBay is an online auction and shopping website that manages the global public to buy and sell items online. eBay was founded in San Jose, California by Pierre Omidyar on September 4, 1995 under the name Auctionweb. People can sell goods online via eBay.

The establishment of eBay happened to meet the increasing trend of global network users. By 2012, there are 1.4 billion people use the Internet regularly and the number of Internet users was expected to grow to 30 percent of the world's

population. Among them, 1 billion of these users would make purchases online. Online sales in US grow about 30 billion annually and reach a total of 335 billion by 2012. This rapid increase of Internet users and online sales gives the opportunity to eBay.

However, during the early 2000s, eBay faces some economic events which have influence the rate of growth of eBay. In the early 2000s, the Dot.com bubble decreases the speed of the development of eBay. In the Figure 1 it can be revealed that the development rate of the users and gross merchandise sales is not huge during 2000-2002. After 2002, the registered users and active users both grow rapidly until 2008, the year of financial crisis. The gross merchandise sales first decreases in a large number at that year although the number of registered users increase. That may be because of people have the desire to purchase but do not have enough money to buy what they want. To deal with the Dot.com bubble in the early 2000s and to promote eBay's growth, they made a significant decide that is to buy PayPal in October, 3, 2002. The impact of this decision will be discussed later in this essay.

**Exhibit 1** Selected Indicators of eBay's Growth, 1998-2007 (all figures are in millions)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 Partial Year <sup>†</sup>
Registered users	22.0	42.4	61.7	94.9	135.5	180.6	221.6	276.3	370.2
Active users*	NA	18.0	27.7	41.2	56.1	71.8	81.8	83.2	85.7
Gross merchandise sales	\$5,400	\$9,300	\$14,900	\$24,000	\$34,200	\$44,299	\$52,474	\$59,353	\$46,004
Number of auctions listed	264	423	638	971	1,412.6	1,876.8	2,365.3	2,340.5	2,015

\*Defined as a user who has bid on, bought, or listed an item during the most recent 12-month period.  
<sup>†</sup>Totals as of September 30, 2008, based on third-quarter results, as posted in third-quarter report.

*Figure 1*

## Company Overview

Millions of furniture, collectibles, computers, and vehicles are published, sold, and sold on eBay every day. Some items are rare and precious, but most of them may be just dusty, unremarkable gadgets. These items are often ignored by others, but if they can be sold in large global markets, their value may rise. As long as the item does not violate the law or is on eBay's prohibited list, it can be posted on eBay. Services and virtual items are also within the scope of items that can be sold. It is fair to say that eBay has overturned the smaller flea market of the past, bringing buyers and sellers together to create a market that will never rest. Large multinational companies like IBM will use eBay's fixed-price or auction auctions to sell their new products or services. The regional search of the database makes shipping faster or cheaper.

Currently, eBay has its customers from all over the world. People could choose to purchase goods in auction-style or fixed price. The main way to pay is through PayPal. The objective of eBay is not only to augment the profit but also to make an

environment for buyers and sellers to find people who have the similar interests with them.

### Business model

The business model of eBay is separated into three parts: marketplace, payment and communication.

### Marketplace

The marketplace segment is mainly comprised by eBay.com and other websites such as shopping.com and StubHub. These websites bring buyers and sellers together to create a business world without boundaries of regions and countries. The main place of this segment is the one we are most familiar with: eBay.com. Thousands of sales are occurred in this website and thus create most of the profit to the company. Other websites such as StubHub, which mainly focus on tickets of movies and concerts exchange, Rent.com which is a leader of online renting of rental houses and apartments, and Shopping.com, which is a leading company for online comparison shopping and consumer reviews are successful additions to the marketplace segment. They represent 60 percent of gross merchandise sales in 2007, which can be shown in the Figure 2.

	2005	2006	2007
Marketplaces	\$3,499,137	\$4,334,290	\$5,363,891
Payments	1,028,455	1,440,530	1,926,616
Communications	24,809	194,921	381,822
Total	\$4,552,401	\$5,969,741	\$7,672,329

Figure 2. eBay's Net Revenues by Segment (in thousands)

	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
<b>Assets</b>								
<b>Current assets:</b>								
Cash and cash equivalents	\$ 201,873	\$ 523,969	\$1,109,313	\$1,381,513	\$1,330,045	\$2,180,598	\$ 2,662,792	\$ 4,221,191
Short-term investments	354,166	199,450	89,690	340,576	662,004	886,783	554,841	676,264
Accounts receivable, net	67,163	101,703	131,453	225,871	240,856	274,238	393,195	480,557
Funds receivable	—	—	41,014	79,893	123,424	210,593	399,297	427,337
Other current assets	52,262	58,683	96,988	118,029	534,820	436,781	960,461	1,317,156
Total current assets	675,464	883,805	1,468,458	2,145,882	2,911,149	3,990,993	4,970,586	7,122,505
Long-term investments	—	286,998	470,227	934,171	1,266,289	827,191	277,853	138,237
Restricted cash and investments	—	129,614	134,644	127,432	1,418	—	—	—
Property and equipment, net	125,161	142,349	218,028	601,785	709,773	762,413	998,196	1,120,452
Goodwill	—	187,829	1,456,024	1,719,311	2,709,794	3,529,895	6,544,278	6,257,153
Investments	—	—	—	—	—	—	—	—
Deferred tax assets	—	21,540	84,218	—	—	—	—	—
Intangible and other assets, net	23,299	26,394	292,845	291,553	392,628	515,551	682,977	596,038
	<u>\$1,182,403</u>	<u>\$1,678,529</u>	<u>\$4,040,226</u>	<u>\$5,820,134</u>	<u>\$7,991,051</u>	<u>\$9,626,043</u>	<u>\$13,494,011</u>	<u>\$15,366,037</u>
<b>Liabilities and Shareholders' Equity</b>								
<b>Current liabilities:</b>								
Accounts payable	\$31,725	\$ 33,235	\$ 47,424	\$ 64,633	\$ 37,958	\$ 42,726	\$ 83,392	\$ 156,613
Funds payable and amounts due to customers	—	—	50,396	106,568	331,805	517,309	1,159,952	1,513,578
Accrued expenses and other current liabilities	60,882	94,593	199,323	356,491	421,969	523,584	681,669	1,151,139
Deferred revenue and customer advances	12,656	15,583	18,846	28,874	50,439	44,222	128,964	166,495
Debt and leases, current portion	15,272	16,111	2,970	2,840	124,272	—	—	—
Income taxes payable	11,092	20,617	67,265	87,870	118,427	138,951	464,418	111,754
Deferred tax liabilities, current	—	—	—	—	—	—	—	—
Other current liabilities	5,815	—	—	—	—	—	—	—
Total current liabilities	137,442	180,139	386,224	647,276	1,084,870	1,266,792	2,518,395	3,099,579
Debt and leases, long-term portion	11,404	12,008	13,798	124,476	75	—	—	—
Deferred tax liabilities, long-term	—	3,629	27,625	79,238	135,971	298,197	31,784	510,557
Other liabilities	6,549	15,864	22,674	33,494	37,698	33,690	39,200	51,299
Minority interests	—	37,751	33,232	39,408	4,096	—	—	—
Total liabilities	168,643	249,391	483,753	923,892	1,262,710	1,598,679	2,589,379	3,661,435
Total stockholders' equity	<u>1,013,760</u>	<u>1,429,138</u>	<u>3,556,473</u>	<u>4,896,242</u>	<u>6,728,341</u>	<u>8,027,364</u>	<u>10,904,632</u>	<u>11,704,602</u>
	<u>\$1,182,403</u>	<u>\$1,678,529</u>	<u>\$4,124,444</u>	<u>\$5,820,134</u>	<u>\$7,991,051</u>	<u>\$9,626,043</u>	<u>\$13,494,011</u>	<u>\$15,366,037</u>

Source: Company financial documents.

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Figure 3. eBay's balance sheet

## Payment

As we mentioned before, eBay purchased PayPal in 2002 in order to remove the effect in Dot.com Bubble during the early 2000s. This decision can also be accounts for the the balance sheet of eBay (Figure 3) that in 2002, the liability and shareholder's equality exceeds the assets. This is one way that eBay modifies their growth strategy to optimize growth in 2002, because this decision brings huge profit to eBay. Payment segment grows 40 percent from 2005 to 2006 and 34 percent from 2006 to 2007. PayPal earns money in several ways. It receives the fees from the businesses, users who convert funds to foreign currencies, and during many processes when people using PayPal.

Another payment in this segment is Bill Me Later. It is based on one person's criteria to determine whether this person are allowed to have a specific purchase. Although by 2008, Bill Me Later have varieties of customers for more than 4 million, it was not expected to be profitable until the end of 2009.

## Communication

In September 2009, eBay purchased Skype, which is a global Internet communication company. Its function is that it allowed users to make free-to-free

Skype calls to help buyers and users to communicate with each other. This segment also fits the objective of eBay that buyers and sellers can find people with similar interests here. Skype earns money from its phone calls and service such as text messaging. Also, users are allowed to buy a subscription plan for an unlimited phone calls.

eBay are trying to integrate the communication segment with the payment segment. Users can use Skype to send money through PayPal. Moreover, eBay encourages its users in marketplace segment to communicate through Skype in order to reduce the conflicts during the shopping process. These promotions allow Skype to bring 32 million new users. In the following, the revenue increases by 46 percent from the last year.

There is also a special feedback forum in eBay. When it was started, both buyers and sellers are allowed to give negative, positive or neutral feedback to each other. However, after 2008, sellers are not allowed to give negative or neutral feedback on its buyers. This policy causes some dissatisfaction of small businesses because they believe it augment the risk for buyer frauds.

## **Marketing Mix**

### **4P's Product**

eBay is an outstanding online company because of its extensive product portfolio on its online portal. From the beginning, research on eBay has focused on the needs of people who are busy with their desks. They prefer to save time by buying online.

As a result, eBay's analysis revolves around the fact that most people have very limited time to go to the market. It starts selling electronic products, household appliances, white goods, brown appliances, fitness equipment, etc. online. Therefore, eBay can be said to be the originator of all electronic product portals. In just a few years, eBay's product portfolio has continued to expand, and now it can provide different products in various fields, not limited to electronic products.

### **Price**

Price is the main factor that determines the fate of a particular enterprise. Competitive prices are used throughout the e-commerce industry because customer switching rates are high and purchases can be completed within a few minutes. eBay's advantage in this direction is that it can perform detailed analysis of specific products, market availability, and the best prices on its portal. Therefore, the price must be kept within a reasonable range. So far, eBay has been doing this.

Low price means that the customer is with you, and high price means that the customer may be transferred to another portal. Therefore, eBay must always pay attention to the price. However, the advantage of online portals is that due to the

nature of the business, fees and overhead are usually less than return on investment. Therefore, online retailers are often seen to lower prices and attract customers. eBay offers coupons and discounts at any time, as well as offers to attract and retain customers.

### Promotion

eBay usually attracts customers' attention through advertising, promotion on websites, blogs, and even social networks. In addition, search engine optimization technology (usually called SEO) is used so that when customers search for products online, the search engine first places the name of eBay above everyone else.

Another form of promotion is self-promotion, where most of the money is spent by eBay. By lowering profits and providing discounts to customers and sellers, eBay can enter the market better and faster. At the same time, because of its large volume of transactions with the company, you can get the most favorable price from them.

### Place

The main sales location of eBay is on the Internet, and any computer with Internet function can go to eBay's website. This reduced considerable physical costs and became one of eBay's strategic advantages.

Another part of eBay's advantage is delivery time. eBay has a distribution center in a strategic location, which can be distributed anywhere within 2-3 working days. In the subway, eBay even provides one-day delivery, but it requires additional charges. The most important thing is that you only need to enter your personal identification code to provide you with accurate delivery time.

	2005	2006	2007
U.S.	\$2,471,273	\$3,108,968	\$3,742,670
International	2,081,128	2,860,773	3,929,659
	\$4,552,401	\$5,969,741	\$7,672,329

Figure 4. eBay's net revenue by Geography (in thousands)

Some factors in marketing mix causes the difference in domestic market and international market. The first one is that international users need to consider the exchange rate from dollars to their currencies. This makes the net revenue of eBay in international market a little bit lower than the revenue earned by the domestic market at first. Another one is the delivery time. This competitive advantage doesn't work as well as in US in the international market. However, as the development of their own sites in many country, these problems have solved, and the net revenue are increasing over years.

### **Competition**



## Amazon

Amazon was founded in 1995. At first, it only operated the online book sales business, but now it has expanded to a wide range of other products. It has become the online retailer with the largest variety of goods in the world and the second largest Internet company in the world.

Amazon is committed to becoming the most "customer-centric" company in the world. At present, it has become the online retailer with the largest variety of goods in the world. Amazon and other sellers offer millions of unique new, refurbished, and second-hand goods in categories including books, movies, music, and games, digital downloads, electronics and computers, home and garden supplies, toys, and more.

Amazon has specially set up a gift page to prepare a variety of gifts for both adults and children. This is actually a business promotion activity of the promotion strategy in the value activity. It attracts customers to buy goods from this store for a long time by providing shopping coupons or exquisite small gifts to customers of all ages. In addition, Amazon also offers discounts to customers who purchase their products for a long time, which is also a measure of business promotion.

	2005	2006	2007
Net sales	\$8,490	\$10,711	\$14,835
Cost of sales	6,451	8,255	11,482
Gross profit	2,039	2,456	3,353
Operating expenses:			
Fulfillment	745	937	1,292
Marketing	198	263	344
Technology and content	451	662	818
General and administrative	166	195	235
Other operating expense, net	47	10	9
Total operating expenses	1,607	2,067	2,698
Income from operations	432	389	655
Interest income	44	59	90
Interest expense	(92)	(78)	(77)
Other income (expense), net	2	(4)	(1)
Remeasurements and other	42	11	(7)
Total non-operating income (expense)	(4)	(12)	5
Income before income taxes	428	377	660
Provision for income taxes	95	187	184
Income before cumulative effect of change in accounting principle	333	190	476
Cumulative effect of change in accounting principle	26	—	—
Net income	\$ 359	\$ 190	\$ 476

Source: Amazon.com, 2007 annual report, p. 11.

Figure 5. Amazon's Income statement

## Challenges

Buyer fraud is one of the significant problem eBay faces. There is 0.0001% that the fraud occurs. Consider eBay's huge deals everyday, this number cannot be ignored.

To solve this problem, eBay encountered "Trust and Safety Program", including its special feedback forum.

Another problem is the higher fees in eBay. Also, the transaction fees are often changed, which leads to the dissatisfaction of a lot of sellers. This dissatisfaction casues not only the decrease in supply, but also the demand for many sellers also purchase on eBay.

Other challenges such as how to compete with new e-commerce companies, how to attract new customers and how to maintain the active users now also needs to be considered in eBay's management.

### **Suggestions**

The following suggestions is good for eBay's further development.

1. Decrease its fees on sellers, or eBay will lose numbers of sellers to its competitors.
2. Continue to develop its data base to know customers' interests in order to attract more buyers and maintain its buyers now.
3. Increase eBay's product mix and adds more types of products.
4. Improve its feedback forum to allow sellers have negative or neutral feedbacks on its buyers so that the number of buyer fraud will be declined.
5. Focus on fixed-price sales more but continue to develop the auction style sales.

### **Conclusions**

As one of the beginning companies of e-commerce, eBay creates its own Business

Model: Marketplace, Payment and Communication. Its several marketing mix also makes it stands out in many of its competitors such as Amazon. However, it also has some challenges in the future development, such as buyer fraud. In order to continue growing, eBay should improve its product mix and fix some policies which have negative effects on both of its buyers and sellers.

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