Business Plan for Future eBay——Subject: Introduction to Business

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ABSTRACT. Stepping into the twentieth century, the eCommerce industry was growing and developing vigorously. Successional advents of the e-Commerce enterprises all over the world, such as Amazon launched in 1995, so did eBay in that year, and the foundation of Alibaba in the eastern country, China, had already foreboded the risen of a brand-new commercial activity: online transaction.

KEYWORDS : Business Plan, Future eBay, Subject

Part 1: Background

eBay is an American multinational eCommerce corporation, which mainly focuses on online auction and sales, which is the majority part of the enterprise’s revenue source of the marketplace. In 2001, eBay had even the largest userbase among all the eCommerce sites. According to the income statement of eBay from 2000 to 2007, the gross profit soared rapidly and continuously: increasing from 335,971 thousand dollars in 2000 to 5,909,357 thousand dollars merely seven years later, which is a nearly 1800 percent multiplication. Even though the cost of the net revenues is also increasing during the years, from 95,453 thousand dollars to 1,762,972 thousand dollars, the acceleration rate of the net revenues is much higher, which also indicates that eBay are investing more facilities and techniques into the development of the business model, and as a result, it brings great revenues to the corporation.

Part 2: eBay’s Business Model

Business model refers to a company’s plan for making profits (KOPP, 2020), so before we make a plan for a company it is necessary to identify its business model. The essence of eBay’s model is to help develop and organize a community between sellers and buyers to let them efficiently exchange information and good. For eBay, the model is mainly composed of three segments: marketplaces, payments, and
communications. This is proved by Exhibit 4, which shows increasing revenues earned by these segments from 2005 to 2007, since this period corresponds to the fast-growth time of eBay. Then, as described in the case, when all these segments started to shrink, the eBay’s stock price began to decrease, which is showed by Exhibit 11. After defining the model, it comes to how each segment operates to get money and how they cooperate.

In reality, marketplace is an open square or place in a town where markets or public sales are held (Merriam-Webster, 2020), but for eBay, marketplaces are various online platforms for buyers and sellers with different needs. There are classified websites used in distinct areas and level, such as Rent.com for renting houses, SubHub for tickets and concerts, and Shopping.com. Marketplaces are the core segment that eBay can gain profits from, which include listing or insertion fees, final value fees, auction fees, and customization fees.

eBay provides customers with their own payment process which includes PayPal and Bill Me Later. At first, PayPal was used to facilitate personal transactions on eBay to create a “seamless and integrated part of trading experience.” Later, it expanded to facilitating any online merchants and even to other areas and countries. PayPal’s profits come from charging fees for transactions of money, while Bill Me Later works as credit determinator and provider which allows customers to buy first and pay later, and sale accelerator which drives incremental sales and higher order values (Schwartz, 2008).

The communications segment based on Skype which charges users for sending diverse forms of messages and placing calls from skype to landline and mobile phones seems to be a separate part in the business model, but if it incorporated with other two parts, it actually could be a strong accelerator for the business. Therefore, the company also tried to use Skype to support communications between buyers and sellers. However, eBay finally failed and sold Skype.

Conclusively, nowadays, eBay’s business model focuses on marketplaces and payments, and communications segment is no longer a main part, so our following analysis will be based on these two parts.

Why eBay managed to dominate the eCommerce industry in such a short time? The external factors are also significant and considerable, especially the economic conditions of the overall eCommerce industry, the online consumerism, and the economic situation during 2000 to 2007 as a whole. To begin with, there is a gradual increase in the number of users for eBay, as well as a huge increase in the number of people using the auction function, which proves that eBay has a huge market for this business. The time when the number of Internet users began to soar up was around the start of twentieth century since the computer scientist Tim Berners-Lee invented the World Wide Web. This web is the most common means of accessing data online in the form of websites and hyperlinks, but the meaning of it is profound: helping to popularize the Internet around the world and serving as a pivotal step in developing the vast trove of information that people nowadays access on a daily basis. Till 2007, the number of registered users is more than 10 times as large as in 2000. One of the
decisive factors is the widespread use of the Internet and the Internet had already become part of people’s daily life.

As the data displayed, almost half of the population in the US was accessing information through the Internet.1 Even though in the less-developed countries, the Internet had a much less influence on people’s life, the highest Internet userbase and usage growth were expected to be in these developing countries.

Besides, people’s preferring payment ways are switching from cash and coins into online payment, like the use of digital and mobile wallet is nearly fifty percent of the worldwide population.2 Hence, eBay’s 2002 acquisition of PayPal was also a wise choice because PayPal did bring more convenience and security for online transactors, both sellers and buyers, and the revenue from the payment also accounted for part of the total revenue of eBay.

The economic expansion during 2001-2007 was relatively robust. The tax cuts in 2001 and 2003 helped reinvigorate the economy and stimulate the cash flow and overall consuming confidence of people. Nevertheless, as the data turned out, the 2001-2007 expansion was below the average growth rate for the comparable periods of other economic expansions, based on the seven indicators: GDP, consumption, investment, net worth, wages and salaries, employment rate, and corporate profits.

Section Two: Business Plan for Future eBay

Part 1: The Market

A significant advantage of eBay is that it has devoted to broadening existing trading platform. Granted, the investment for purchasing promising firms increased at the same time on the basis of eBay’s payment structure, but eBay has gained a lot of benefits from this expensive strategy: it acquired enough international presence for future progress. According to Exhibit 5 the given material3, net revenue of eBay from international gradually grew from 2005 to 2007, and it even outnumbered the net revenue from the U.S. in 2007.

To earn this accomplishment, eBay has kept trying to explore the approach to expand its market since the end of 20th century. As of today, eBay is available in 180 countries, but this great global business started its expanding strategy from


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launching sites in only Germany, Australia and the U.K in 1997. In July 2002, eBay acquired PayPal, thereby uniting the largest online marketplace and a groundbreaking system for secure and convenient payment. PayPal obtained global leadership position in digital payments after strong revenue growth of 40 percent from 2005 to 2006 and an additional 34 percent from 2006 to 2007. PayPal and eBay have profited from their powerful synergies for 13 years. In 2005, eBay also showed an ambition to increase customer base by paying attention on politic issue. In 2005, its Main Street program launched as a grassroots community of e-commerce proponents interested in how public policy possibly affect their capability of buying and selling on the internet. Nowadays, the global network has a total number over 275,000 members. In 2005, eBay accomplished the acquisition of pioneering Internet communications company Skype. Although eBay might not maximize Skype’s potential, their synergies still increased the enterprise’s global presence and strengthened international marketplace. In 2009, eBay sold Skype to a group of investors while preserving a 30% stake in the firm. In 2007, eBay acquires StubHub4, and it became the world's largest online marketplace for tickets.5

Next, following paragraphs will analyze how has the company internationalized the brand eBay with its marketing strategy (4Ps).

Product:

eBay is an online platform for people to make transactions with others from an extensive global range. During the process of global expansion, eBay devoted many efforts into eliminating the distrust of foreign customers living in countries that never had any e-commerce platform. For example, eBay Money Back Guaranteed program ensured to take care of shipping, returns, etc. in case of any damage, thereby instilling belief of customer in eBay. In addition, distinguished user experience gave the firm another edge to arouse foreign customers’ curiosity. Earning a reputation of convenience, eBay is present on all devices like desktops, laptops, mobile phones on all operating systems like iOS, windows, and so forth. Millions of products listed for sales on this broad platform, and this fact indicates eBay has the diversity and the quantity of products to attract customers constantly.

Promotion:

For the first few years, eBay did not spend much on marketing or advertising, only relying viral, word of mouth marketing. While, later the enterprise shifted concentration on building a strong brand value as plenty of competing firms entered the e-commerce market: the company spent 166,767 dollars on sales and marketing in 2000 and 1,925,292 in 2007. The eBay took advantage of several media, like TV

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commercials, online ads, billboards, to market itself and infill an intense brand awareness to all of the potential customers.

PR is another approach eBay applied to promote its business value and brand presence. The eBay Foundation maintains community service program to demonstrate its social responsibility and visibility in different markets all over the world. For instance, in 2006, eBay joined the United Nations Global Compact, the largest voluntary corporate responsibility initiative in the world. It reveals the company’s faith in the power of business to bring positive social and environmental externality.

Place:

As a broad e-commerce platform, eBay has a strong presence in over 30 countries around the world. The eBay website is available across all types of devices and systems at any place with internet connection. They want to make the world flat and create a perfect marketplace so that people can enjoy the same product and service anywhere in the world. This aspiration demonstrates a characteristic of respecting and encouraging variety and also an ideal for exploring further in business world.

Price:

The sales revenue is not an income source for eBay, for eBay is only a platform to facilitate transactions between sellers and buyers. The profiting process is to charge sellers a fee for putting up the product. Then, if the product is sold, eBay will charge extra fee on that. Compared to eBay’s biggest competitor Amazon, eBay’s fee charged is not very high, thereby inducing plenty of people to put up items on eBay. For example, the standard extra fee charge when the item is sold is 4% of the reserve price, so its maximum is at most hundred dollars. These two following forms take books and DVDs as examples to show how much the fee is lower in eBay than in Amazon.
This business plan focuses on how to expand current market size by attracting new customers and making up one serious deficiency: an inefficient logistics system.

eBay should try new methods to make its logistics system more effective: one choice is to build a new logistics system. While, a faster and more feasible approach is to seek a stable cooperation with a high-quality logistics company. In fact, eBay does not have its own logistics distribution system, so sellers have to determine how to deal with packaging product and choosing logistics company for distribution by themselves. Often used by numerous sellers on eBay, U.S. Postal Service (USPS) is
slow in terms of logistics efficiency, and the phenomenon of package loss is serious and frequent, which also affects buyers’ shopping experience on eBay.

By contrast, eBay’s largest competitor Amazon has its own logistics system which offers FBA (Fulfillment By Amazon) to its customer. It is a logistics service including warehousing, picking up, packing, delivery, collection, customer service and return processing. Furthermore, Amazon's logistics centers are all over the United States, which can basically guarantee the delivery of goods in the next day. In general, prime members can enjoy delivery within three days. At the same time, Amazon's prime membership system announces that as long as Amazon buyers pay a certain fee, they can enjoy free FBA (now in the United States, 44% of households own Amazon prime.) It greatly increases the frequency of buyers' shopping.6

People's desire for shopping is not only satisfied with the quality of the products, but also the experience of the shopping process. Amazon devotes much attention to users’ experience, so it enables Amazon to acquire rich positive feedback from users. Frequent repeat purchases and high annual consumption cause the rapid development of the platform.

If eBay doesn't make progress in logistics, it may be surpassed further by Amazon.

Part 2: The Competition

Keeping changing product mix, eBay gradually competed with stronger competitors as itself grew stronger.

At first, eBay’s products only consisted of online services, the auction services. After experiencing global expansion, eBay started to enrich the variety in the marketplace section: payment services (PayPal), ticket exchange services (StubHub), and classifieds services (Kijiji), to name just a few.

In Exhibit 6, the author compares eBay’s customer service with other internet retail department, discount store, and specialty retail stores. Also, exhibit 7-10 shows that huge companies like Walmart and overstock became eBay’s competitors. Therefore, eBay’s competitors were not just retailers which only offered homogenized products: they are influential platforms with abundant sales on e-commerce segment. This fact conveys that eBay has grown to be a solid success.

One possible reason for it is that eBay changes its business model by simplifying the modal and focusing more on e-commerce, the marketplace section. Meanwhile, it cut the branch of communication and payment, two previous important segments in the business modal. In 2009, eBay sold Skype for 27.5 billion dollars. Then, in

2014, eBay and PayPal announced to be independent companies in 2015, enabling both to sharpen their strategic focus on new opportunities for growth in respective markets. In short run, eBay’s leaders were capable of being preoccupied with the e-commerce section’s development. In long run, those actions facilitate eBay to decrease a great amount of cost in operating and strategy designing for those affiliated business.

This business plan aims to find out advanced approach to help eBay outstrip its competitors.

According to what is mentioned on previous content, the operating fee charged by eBay is cheaper than the one charged by Amazon. As a matter of fact, eBay has 167 million users a month, but Amazon has 300 million users a month. It warns that eBay is not supposed to be satisfied with the status quo. It ought to strengthen existing advantage and take advantage of it to make a breakthrough.

Lower cost for sellers makes lower costs and lower prices. Therefore, it motivates not only buy sellers but also new buyers to become loyal customers for eBay. Nonetheless, eBay still levied this money to enrich its income, and it arouses customers’ discontent:

In any transaction, sellers must pay 5% - 10% transaction fee.

PayPal transfers money immediately, but payees will also be deducted 10% of the fee.

There are three levels of monthly fees, ranging from $30 to $60. Generally speaking, the fees charged by eBay and PayPal account for about 15% of the sales of an account.

When drawing money from PayPal, the seller needs to pay $35 + 4.4% each time. In addition, the bank also charges a handling fee.

Meantime, the biggest Chinese e-commerce platform Taobao never charge this part of the fee. The only source of Taobao is the promotion and advertisement. This tactic enables Taobao to gain a huge market. It is a successful example that eBay may be able to learn.

Although eBay has become a prominent company owning a large market, the transaction platform is too extensive to regulate every segment. For example, eBay allows two ways of payment: First, customers remit money directly. Second, they can use PayPal to make digital payment. Immediately after the payment, PayPal will remit the money directly to the seller. That is, whether the customer receives the product he or she purchased or not, the money has already been put into the seller's

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account. If you fail to negotiate with the seller and want to apply for refund, you can only complain to PayPal. This type of hassle makes the whole purchasing process inefficient. 9

While, there is a helpful tactic belonging to Taobao. Customers buy merchandises on Taobao first and pay the bill through Alipay. Only after customers receive their products, the Alipay will remit the bill to the sellers. This method ensures customer financial safety efficiently by replacing the procedure of complaining with an effective payment system. Therefore, eBay ought to design a new mechanism and invest more on insure customers’ financial security.

Part 3: The User

eBay has 182 million users worldwide and is used by 34.9% of all US mobile phone users. More than 70% of eBay’s traffic comes from America. This is followed by China (1.93 percent), Canada (1.84 percent), Russia (1.75 percent), and the United Kingdom (1.69 percent) – all of which make up just a tenth of its US traffic (Lin, 2020). In the future, the company should keep and satisfy more needs of users inside United States and try to expand international market at the same time. However, online service itself actually already weakened effect of geological differences, though delivery time may cause some inconvenience, and what really caused a customer to use an app or website are its competitive advantages, determinants, and advertisements, accelerators. For example, Chinese tend to use Taobao.com, while Americans are more likely to use eBay. Therefore, the following will focus on how to meet users’ demand and how to improve products.

According to the case (Kreiser, not clear),users of online auctions, eBay.com, can be divided into two major parts: buyers and sellers, and six small groups: bargain hunters who always search a lot to find economical deals, hobbyist/collector buyers who try to find objects that have high values to them personally, professional buyers who have affiliation to commercial enterprises, casual sellers who only sell a few items as they did not need them or raise money for new things, hobbyist/collector sellers who sell special items, and corporate/power sellers who are businesses and prefer to use eBay as channel to distribute their goods. All these users have different requirements for type and price of things and advertisement that they want to buy or sell, so transferring and displaying of information are important.

To enable buyers to precisely locate what they want, eBay introduce a new search engine Cassini in June of 2013 (WELLS, 2018). Cassini aims to provide customer a better experience and to match listings more precisely with what a buyer searching for. Though, after Cassini’s implementation, sellers saw a drop in page views, yet it is better to have 10 quality views on an item than 100 views by buyers who aren’t seriously interested in the product. This is because Cassini began

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matching buyer searches with quality results rather than quantity, so sellers don’t need to worry if views are down, since it can increase probability that a buyer will buy a product.

Specifically, here are several changes for sellers. Firstly, sellers are allowed to put 12 pictures for each listing for free. Even if sellers may not think more photos will help, however, usage of 8-12 photos will lead to boost in search to improve search ranking. Secondly, there is a 30-day return policy that customers can return items within 30 days as long as they are not satisfied, which forces sellers to provide accurate and real information about items, since probability of return makes sellers nervous. Thirdly, sellers were required to write titles for human buyers instead of computer searching engine. That is, sellers need to put title in order that buyers usually search for, and select as little keywords as possible for precise location. Fourthly, eBay encouraged sellers to offer free shipping for small, light and domestic items like clothes and accessories, and, in fact, sellers can include shipping fee inside prices. Lastly, Cassini rewards sellers who consistently sell items, and penalizes those who don’t by looking at sale ratio: the number of items sold versus the number listed.

In conclusion, on the seller side, eBay should make conditions to ensure they will provide simple but real, detailed but accurate information; on the buyer side, based on the information provided by sellers, the searching engine can ensure that buyers can easily search for products that they want; therefore, sales will increase and deal rate will increase. Here, we suggest that eBay should keep all above actions and maybe keep focus on collecting more information from both sides of users, buyers and sellers, and improving precision of searching engine.

Except for the auction, there are also other demand from buyers, and eBay also created special websites for them, as mentioned in the business model part. For all these websites, eBay needs to improve them the same as eBay.com. What’s more, eBay can also seek for new demand suitable to be conducted online and to its business model.

Part 4: The Investor

The 2008 Great Recession did have a significant economic impact on the United States. The real GDP of America fell $650 billion during 2007 to 2008. If stocks continue to tumble, consumers will become less confident and cut back on spending and overall consumption. According to Wall Street Journal, “Stu Woo writes that, if there’s a double-dip recession, online retailers are better poised than brick-and-mortar stores.” This is due to the fact that compared with the


\[11\] Ina Steiner, How Will the Economy Affect Online Sales? eCommerce Bytes, Aug 14, 2011.
brick-and-mortar competitors, eBay has millions of varieties of items as selection for consumers; allowed buyers and sellers to deal with each other efficiently and effectively, with relatively low transaction costs. However, while the main competitors of eBay, Amazon, performed well in the 2007-2008 recession, eBay did not do well as people have been thought eBay to be recession-proof. Investors were becoming not confident and optimistic in eBay’s future potential growth based on the diminishing eBay’s stock price, decreasing from around $33 per share in December 2007 to $10 per share one year later.12

In fact, the overall performance of eBay is not that bad, but it does underperform when we compare it to a wider market of eCommerce. While the top ten US eCommerce companies are delivering double-digit rates of annual sales growth, eBay is meager in comparison. To be specific, the direct and pivotal competitor of eBay is Amazon, a giant eCommerce company with different breeds of business from eBay. For Amazon, the top selling product categories are books and health and beauty, while they are electronics and clothing for eBay. The sales strategy of Amazon has disparity from eBay, with a small profit margin for each product being listed and sold. Also, Amazon is a perfect retailer, while eBay is mainly focusing on auction, partially with fixed-price sales. It is clear that eBay is reluctant to enter the high-growth, low-margin businesses that Amazon has pounced on. Besides, although eBay’s growth is reliable and consistent, shareholders regard it as paltry once they started to compare it with alternative competitors. The main reason for investors not be confident in future growth of eBay is its overshadowed income statements since its gross profit growth rate even does not reach one tenth of Amazon’s.13

The pivotal suggestion for future growth of eBay is making best use of its advantages and bypassing the disadvantages. The horizontal width of eBay is wide spreading, which is not good for eBay because it will face a great number of competitors. Instead of diving into fast growing areas as its rivals do, eBay should double down on areas where it is the strongest like in electronics, automotive, and clothing. Moreover, eBay should continue to strengthen its personalization and fostering a sense of community among individuals with mutual interests.14 Interestingly, most third-party sellers usually choose to sell their products on several eCommerce sites because different sites have different marketplace advantages, with different target consumers. As data displayed, 56% of Amazon’s sellers also sell on eBay, and only 13% solely use Amazon, which also suggests that there is no one company achieving to be all-in-one marketplace.

Some investment strategy also needs to be changed. The variety of its online commerce platforms within the Marketplaces segment is too wide, which may interrupt the development of eBay’s core market segment. eBay could divest and reinvest the sums into its core marketplace platform. That means, eBay could spin off StubHub and other classified ad Web sites, which will lead to the fast growth of dividend payments for shareholders.

Section Three: Conclusion

Our business plan proposes: improving logistics system of market; surpassing the competitor through looking for new source of income, letting sellers earn more profits, and making payments more secure; satisfying the user by fully transferring information and fulfilling their new demand; attracting investors by focusing on the core marketplace platform and increasing dividend payment.

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