

## Strategic Analysis of E-Bay's Marketing Action Plan

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**ABSTRACT:** *E-bay carries significant importance in the e-commerce of US market. We conduct a thorough market analysis of E-bay and analyze various market segments it targets, auction patterns on a yearly basis, growth strategies, pricing policy, business model, product mix as well as its future plans. We believe E-bay's auction strategies became popular leading to increase in online traffic volumes but they became overly invested in the auction. We find several challenges E-Bay faces such as variation in its product and pricing mix against its competitor Amazon. Therefore, we recommend that E-bay needs to pay more heed to diversification of its services, invest in digital advertising and research and development.*

**KEY WORDS:** *Auctions, E-commerce, Product Mix, Pricing,*

eBay is one of the main competitors in the e-commerce and online auctions industry (Spitzer, 2020). As an online retailer that specializes in bringing together suppliers and customers from around the world, eBay offers a variety of platforms such as Marketplace, StubHub, or Classifieds. These platforms enhance seller and buyer experience by introducing an innovative and more comprehensive approach to online buying and auctioning. According to Marino and Kreiser (2008), eBay capitalized on the huge growth rate that the e-commerce and online auction industry experienced in the early 2000s. Apart from the individual buyers, a significant part of the online commerce was conducted on a business to business (B2B) level.

eBay's initial point of focus was online auctions. To this end, the company's growth indicators since 2000, as reflected in Exhibit 1, give us a clear understanding of how the company broadened its operational scope in this 8-year period. Some of the company's growth indicators according to Exhibit 1 are its registered and active users, the gross merchandise sales, and the number of auctions listed. Given that auctions were considered eBay's "core business" the growth rate was in gradual decline. In 2001 the eBay's number of auctions increased by almost 60% (264 to 423 million auctions). In the next year, the increase was 51%. By 2008, the auction rate decreased from the previous year by almost 13%. Similarly, eBay's registered users almost doubled in the first year but their increase rate in the next years declined steeply. As mentioned above, in the early 2000s, online consumerism started growing fast, as e-commerce platforms became more popular. This is a

function of many different conditions. First of all, the number of people that have access to the internet started to increase at that time and it continues to grow. Traffic volume increased because people started spending more time online. As internet connections became, more stable people felt more comfortable shopping or conducting business online. This is reflected in the increase in registered and active users in Exhibit 1.

As more services and functions become available online, the demand for e-commerce platforms and online shopping has also increased. This is why we have an increase in auction listed, albeit not at an optimum growth rate. Also, another decisive factor is the disposable income and the countries' average GDP. As the economy improves, especially in developing countries, there is an increased demand for premium goods from international sellers, or even merely an increase in online spending. (MarketLine, 2020) eBay was very keen on expanding on a global level. By penetrating different markets, including those of developing countries, the company could benefit from the positive trend in e-commerce. As can be seen from Exhibit 5, this is true. From 2005 to 2007, the net revenue percentage that came from international markets increased to the point that it surpassed that of the domestic (US) market. Donahoe interpreted eBay's disappointing numbers for 2007 and mostly 2008 as a result of the global financial crisis. The crisis dealt a significant blow in many economies around the world, leading to a recession. However, eBay was hit disproportionately hard when compared to some of its competitors, signifying that the company was facing some underlying problems that had yet to manifest.

In light of all these, the company could follow a variety of different strategies to optimize growth. The company's marketing mix is based on product, price, placement, and promotion. According to the company's CEOs, their product is innovative and promotes efficiency. To make sure about that, the company made some long term investments by acquiring StubHub, Classifieds, and Skype, among other things. Some of these platforms proved to be wise choices while others did not yield as much profit or they were not used effectively, like Skype. In Exhibit 3, we can see that eBay reduced long term investments drastically from 2005 on. This reflected the change in the company's strategy and the realization that its core service was slowly getting old. In 2004 they invested in different platforms that brought revenue. The company could also be more vigilant against competition and closely monitor what other successful entrants did. Instead of doing that and diversifying their services, they insisted on the auction system that was beginning to lose its loyal base and was far from innovative.

The company's pricing policy is straightforward. The sellers pay some fees and final value fees that are calculated based on the auction final value. Apart from that, there are also the PayPal fees depending on the type of account and the use. Prices were considered steep by many users, or at least not a good value for money. eBay's placement is global. The company decided early on that it should create a vast customer base with many sellers and buyers that would eventually "self-regulate" through feedback, reviews, and positive word of mouth. eBay is available internationally and this was beneficial because the company's revenue from its

international markets outnumbered the domestic revenue. (Exhibit 5) As for promotion, eBay managers saw the potential of digital advertising from the very beginning. This is why the company invested in ads through Yahoo and Google. (Marino & Kreiser, p. 284) They could invest more heavily in digital advertising to further promote the company's growth. Finally, eBay should be consistent with their pricing and feedback policies. Not only the frequent changes discouraged customers and sellers but also Donahoe's decision to eliminate negative and neutral feedback stirred controversy.

According to Marino and Kreiser (p.287), the company's "business model was built around three operating segments: Marketplaces, Payments and Communications." As is evident from Exhibit 4 and Exhibit 2, the net revenue for 2005 was indeed a sum of the net revenues of these three segments. This shows that the company is heavily dependent on these three functions. Notably, the Marketplaces segment's domination over the net revenue of eBay is overwhelming and potentially dangerous. The online commerce and auctions industry is extremely competitive and volatile as new entrants have made their appearance throughout the past two decades. The market's instability is further highlighted by the emerging technologies, platforms, and applications that facilitate seller-buyer interaction. In such an environment, depending heavily on one strategy for the majority of the company's revenue is a potentially detrimental choice. From the case file, we find out that even the company's employees are dissatisfied by eBay and turn to its competitors, such as Amazon, for their online purchases. In Exhibit 6, we can see that in 2004, eBay lost 4 points in the ASCI index of customer satisfaction and until 2007, the company had not succeeded in reaching the 2003 rankings. Apart from the employees, this trend is visible in the company's stock. In 2008, the fall in the company's gross sales (Exhibit 1) was accompanied by a stock price drop of almost 50%. (Exhibit 11)

The most significant difference between domestic and global markets is the volume. As we can see in Exhibit 5, in 2005, international revenue accounted for almost 46% of the total revenue. In 2006 it was almost 48% when in 2007 it was 51.2%. This demonstrates that amidst the financial crisis, peripheral economies invested more heavily in e-commerce and online auctions than domestic customers. Another difference is eBay's ability to effectively penetrate and dominate foreign markets. eBay implements economies of scale. It can easily dominate markets, especially in developing countries. The marketplace feature which is only comparable to Amazon is very useful for online auctions, and PayPal's global reach makes it also very safe. Another advantage for eBay in global markets is the lack of government restrictions or regulations in the fees and the transactions in general. Price can vary greatly depending on each country and that offers greater product variety.

eBay's changing product mix caused insecurity and dissatisfaction among the platform's customer base. Also, the company's significant revenue still came from the auction part of the transactions rather than fixed-price commerce. After Donahoe's controversial decisions and the company's inability to capitalize on the

acquisition of Skype, the distrust grew, as did the pessimism from their investors and stakeholders. eBay's ranks in customer satisfaction plummeted, especially after 2004, whereas its competitors are consistently improving. This negative corporate image allowed for the company's competition (Amazon, Overstock) to gain power. Amazon's customer-centered approach was more appealing to the audience. Amazon focused on customer satisfaction along with a massive variety of products and low prices. Having a similar rating system but more plurality than eBay, it soon became popular because people heavily relied on product reviews and seller reviews before purchases. eBay's core values revolved around members' communication and success. As mentioned above, eBay was designed to be a self-regulated community where those who were not trustworthy would be automatically outranked. Donahoe's choice to eliminate negative feedback stripped some of this transparency. Amazon also has a consistent pricing policy and frequently offers discounts and low-cost deals. On the contrary, eBay's frequent pricing changes frustrate its sellers, both large and smaller ones. Amazon between 2005 and 2007 witnessed remarkable growth. A contributing factor to this success is that the company invested heavily in research, development, and marketing. (Exhibit 7) Overstock, on the contrary, focused to battle eBay by attempting to dominate the auction marketplace since eBay became more open to fixed-price sales. However, their lack of investment in development and marketing most likely contributed to their decline. (Exhibit 9). Overall, eBay's core values are what keeps the company strong, since it has still positive word of mouth and a loyal customer base. However, if it does not set a specific set of targets and goals, come up with a consistent pricing plan and capitalize on its acquisitions and assets it will soon be outdated and its only option will be to invest heavily in PayPal.

### References

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