

Ebay in asia essay



**ASSIGN
BUSTER**

1. Why has eBay struggled in Japan, China and other Asia markets? eBay is an online auction service whose business model is ideally suited to the Web.

EBay stores no inventory and ships no products. Instead, it derives its revenue from the movement of information, an ideal task for the Internet. EBay has taken its model to numerous foreign markets and been successful, particularly in England, France, and Germany, however, eBay has failed to achieve the same success in the Asian markets. There are several reasons behind eBay failure in Japan, China and its slow growth in other Asian markets, such as:

- Global Brand Image vs.

Localization: failure to localize the brand to appeal to Asian costumers.

Understanding how to localize a brand can do wonders for a company.

- Use success in the US as proof-of-concept. This leads to over-confidence. The fact eBay dominates in the US or Europe means little to Asian costumers
- Failure to understand and adapt to local market and culture
- Failure to react quickly to local competition

Poor decision making between headquarters and local management

- Low-key approach to marketing

In Japan. eBay's failure in Japan was a series of missteps.

Firstly, eBay joined the market five months after Yahoo auctions, giving its competitor a massive head start to establish itself. In auctions, there is a significant first-mover advantage. A site with more sellers attracts buyers and more buyers bring sellers. This was a lesson both companies had learned through a very different experience in the U. S, where eBay led the way and Yahoo! tried with limited success to build an auction business in its shadow.

Jack Ma believes EBay's failure in Japan was due to an inability to build what he calls the 'community effect' in the country. For Ma, the community effect begins with customer satisfaction. And, eBay failed to understand the Japanese buying psyche. They tried to target the younger market, and forced them to pay by credit card, but didn't realize that most young Japanese prefer to pay "cash on delivery" or by bank deposit. The final nail in the coffin was imposing a commission charge of up to 5% – where its competitor Yahoo charges nothing at all.

Clearly fatal and basic flaws in their business plan. Another possible misstep was Whitman's choice of Okawara, a second-generation Japanese-American from Hawaii, as president and CEO. Okawara was well-known in Japan for turning a faltering frozen-pizza business into a \$100 million company. But at 60, she was twice the age of most of her eBay Japan employees and new to the Internet. Okawara herself attributes the problems to the late launch: "When we arrived last year, the 800-pound gorilla was already positioned.

Even when eBay did get in gear, it took too long, critics say, to embellish its Japanese site with the local touches needed to attract users. Over time, categories had to be changed and more free features, such as horoscopes, product reviews, and newsletters, had to be added "so it makes more sense from a Japanese point of view," says Okawara. These alterations took months. At the same time, eBay Japan also took a low-key approach to marketing, relying on its usual formula: rather than spend big bucks on advertising, just let auction fans spread the word.

That passivity backfired in Japan because eBay had too few users. In contrast, Yahoo Japan spends some 8% of revenue on promotions that include renting billboards in trendy Tokyo districts, opening an Internet cafe with Starbucks, and covering the planes of a domestic airline with Yahoo's purple-and-yellow logo. By 2002, the San Francisco-area company admitted defeat, laying off all 17 of its Japan employees and shutting down the site with about 25, 000 listings. All its Japanese customers would be directed to its US based auction operations/site. At the time, eBay was the number one auction site in all of the other 18 countries in which it operated and one of the few successful internet companies, having seen its profits soar even amid the dot-com implosion. eBay's strategy in Japan had failed.

Japan was a rare failure for the company. In China. When eBay started in China in 2003 through its acquisition of Eachnet, many analysts thought that eBay's China operation would be a slam-dunk. They thought that have learned from its mistakes in applying its American model to an Asian country. The Eachnet management team had staked out a commanding lead in the online auction sector, controlling nearly 80% of the market. They had strong international and domestic experience and were close to their customers.

By the end of 2006, however, eBay had invested \$300 million into its China operations and had little to show for the effort. Its market share had declined steadily each year until it reached an anemic 20% in 2006 as it lost ground to competitors Alibaba's Taobao and Tencent's Paipai. Many of the largest mistakes were not the typical problems that businessmen often point to as the reasons why MNCs fail in China — such as corruption, lack of

transparency or currency problems. Again, it was the failure to understand the local market conditions, failure to build the ‘community effect’, to “localize” the brand and adapt. Chinese consumers like to buy from brands and people that they “trust” and where customer service was “over the top.

” Many consumers dislike eBay because of bad service and because it did not focus on building up trust. And, to be successful in China, companies need to provide security every step of the way during a sales transaction to ensure that When eBay entered China, their Paypal payment method did not seamlessly integrate escrow into the sales process. Taobao’s popular Alipay made escrow an important component of the online buying experience, because consumers felt confident paying money to Alipay and then only releasing the money after they had their purchase in-hand. In contrast, using Paypal made the whole process more complicated and “nerve-wracking”. Moreover, Taobao allowed the buyers and sellers to contact each other directly via mobile phone or instant messaging. Respondents liked the real-time haggling and bargaining on Taobao, while all communication via the Ebay platform has to go through Ebay so that Ebay could get its cut, slowing down the negotiation process.

Later attempts by eBay to incorporate escrow into the transaction process were too late to help it regain lost market share. Chinese consumers also like to make transactions personal because it helps to build trust between the buyer and seller. Before Ebay acquired Eachnet, sellers and buyers could call a number for service questions. After the acquisition, Ebay brought in the same practices it had in the US and did not offer buyers or sellers a phone number to call, expecting consumers to email questions or join online

discussion groups. Consumers in China viewed this as a major lack of customer service rather than as an efficient way to get answers and as a way to make friends with others in the Ebay sphere. They said that if they were going to pay to sell their products, they should at least have a number to call if they ran into problems.

Unlike competitor Taobao, which offers free basic services to sellers, eBay initially charged listing fees. Another problem comes from the way eBay how it handled decision-making between its headquarters in San Jose and its China operations. Executives in China felt that headquarters “ did not listen to them” at critical junctures, and they did not understand that in China, things take longer because of the need to work with the government, settle copyright issues and find local managerial talent. Puld due to several layers, the decisions just took too long.

2. EBay is making a strategic shift by giving control of its main operation to Tom Online. What does this shift signify? Commenting on the JV, Meg Whitman, President and CEO, eBay Inc EBay said the company is committed to China and she rejected suggestions that Tom Online deal represented a failure of its earlier approach, which included the 2003 acquisition of Eachnet, a Shanghai-based auction site. “ eBay has helped pioneer e-commerce in China, and by combining our expertise with that of a strong local partner like TOM Online, we are even better positioned to participate in this growing market. This agreement is a sign of our continued commitment to delivering the best online buying and selling experiences in China. I think you have to be willing to evolve your strategy on a local market basis to

make sure you are doing the right thing for your buyers and sellers and the right thing for your company.

“ China, like most Asian markets, sometimes requires foreign companies seeking to do business locally to simply take on a local firm as a partner. EBay took a similar approach in Taiwan, where it merged its auction site into a joint venture with local partner PC Home. We have determined that every country in Asia is quite unique, and we have to make a decision about every country in Asia, how we want to do business,” Whitman said. Wang Lei Lei, CEO of TOM Online said, “ eBay is one of the world’s most recognized e-commerce brands and TOM Online has a proven track record of delivering outstanding services to Chinese consumers. ” He added, “ The new online marketplace to be built by the joint venture will provide an enhanced user experience, tailored for the China market, and will capitalize on our companies’ strengths in the emerging m-commerce sector.

Although it entered into a joint venture with Tom Online, into which it injected its local subsidiary EachNet along with \$40 million in cash, eBay did what its users have been doing for years: selling off old junk that doesn’t make money for them anymore. Analysts considered this joint venture as a change in eBay’s strategy in the Chinese market as its Chinese venture had failed to materialize. Once again, eBay has failed in the Asian markets. One of the reasons cited by analysts for eBay’s failure in China was that it failed to understand the local market. Taobao’s auction site was perceived as more in sync with the Chinese consumers buying behavior Jenny Wu, an analyst at Morgan Stanley said, “ It’s good for eBay, because during the past two years

at least it has been losing ground to Alibaba's Taobao, mainly because eBay lacks local expertise".

However, some analysts noted that the deal did not create any synergy between eBay and TOM Online. TOM Online's major revenues were generated from providing value-added cellphone services like sending news and weather conditions to users in the form of text messages. TOM Online's dependence on such services prompted analysts to raise doubts as to whether it would fare well in the e-commerce market. Liu Bin, an analyst at BDA China said, " TOM Online's line of business is not compatible with eBay's. " A few thought that the deal would result in eBay reducing its operating losses and gaining local knowledge about the Chinese market. Scott W.

Devitt, an analyst at Stifel Nicolaus investment banking and brokerage firm said, " Cutting losses and taking a minority stake in a locally owned business is a decent alternative for eBay. How is eBay doing today in Asian markets? According to consulting and research firm, BDA, China has surpassed the United States as the world's largest internet population with over 216 million users. Based upon current growth trends, there will be over 280 million internet users in China by the end of 2008. According to the China Internet Research Centre in Beijing, 55 million of these internet users shopped online in 2007 spending US\$8. 25 billion dollars, up from 43 million shoppers in 2006 and US\$4. billion dollars spent.

Despite giving up control of its China operation to Tom Online, and implementing new strategies such as: no fees for customers, platform

specially designed for China market, or escrow accounts, eBay has been unable to fight off an onslaught from Yahoo's joint venture partner in China, Alibaba. Instead, the move appears to have accelerated the collapse of eBay's Chinese operation. EBAY China's market share fell from 16% to 7% in 2007 according to China-based consultancy Analysys International. As expected, China's Taobao picked up that gain and increased its share from 74% to 83%. But eBay has also had some success in China.

Skype, the Internet phone business that eBay bought two years ago, recently said it had more customers there than in the United States, and its growth rate in China is faster than anywhere else, Whitman said. Japan was critical to eBay's success because it was the world's second-largest Internet market. The gap had to be closed soon otherwise Yahoo Inc. could easily beat it in the rest of Asia. Yahoo Japan was the No.

1 or No. portal everywhere except China. In December 2007, Yahoo Japan and eBay made a deal to link their auction sites and make it easier for their respective users to bid on and buy goods available on each other's sites. A new website by name " Sekaimon" (' gateway to the world' or ' global shopping' in Japanese) – [www.](http://www.sekaimon.com)

[sekaimon.com](http://www.sekaimon.com) – was launched in December. The site allowed Yahoo Japan users to bid on items listed on eBay's US site using their Yahoo Japan ID. The deal made cross-border bidding easier and gave eBay another chance to woo Japanese consumers. The move is the latest tie-up with a local firm for eBay, whose fast-growing international operations make up 51 percent of its

auction and online shopping business. EBay has been seeking local partners to boost its Asian operations in the face of mounting competition.

Consumer markets in Southeast Asia are growing rapidly, and the firm is considering further partnerships in areas such as Vietnam, Jay Lee, Senior Vice President of eBay Asia Pacific, told Reuters. “ These are places where the local customs and markets are very distinct, so they’re perfect for partnerships,” he said. [http://www.usbusinessweek.com/magazine/content/01_23/b3735139.](http://www.usbusinessweek.com/magazine/content/01_23/b3735139.htm)

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