

E-bay case study

Education



At least 30 million people will buy and sell well over \$20bn in merchandise (in 2003) - more than the gross domestic product of all but 70 of the world's countries. More than 150, 000 entrepreneurs will earn a full-time living selling everything from diet pills and Kate Spade handbags to £30, 000 BMWs and hulking industrial lathes. More automobiles, of all things, sell on eBay than even no. 1 US dealer AutoNation. So what does this add up to? 'This is a whole new way of doing business,' says Whitman. 'We're creating something that didn't exist before.'

It wasn't planned, but as users plunged into consumer electronics, cars, and industrial gear, eBay followed. Today, eBay has 27, 000 categories, including eight with gross sales of more than £1 billion each.

eBay's business model

Value in eBay is created by providing a virtual world-wide market for buyers and sellers and collecting a tax on transactions as they happen. The business model of eBay relies on its customers being the organisation's product-development team, sales and marketing force, merchandising department, and the security department.

The organisation, headed by Meg Whitman, was founded in 1995, when Pierre Omidyar launched a basic site called Auction Web. His girlfriend wanted to trade her collection of Pez dispensers, but Omidyar had a broader vision in mind, namely empowering everyday consumers to trade without the need for large corporations. He even wanted traders to be responsible for building the community and deciding how to build the website. It worked; soon he found himself answering e-mails from buyers and sellers during the

day and rewriting the site's software at night to incorporate their suggestions, which ranged from fixing software bugs to creating new product categories.

Some 100, 000 messages from customers are posted per week in which tips are shared, system glitches are pointed out and changes are lobbied for. The COO, Brian Swette, is quoted as saying, 'The trick is to keep up with what buyers and sellers want. We've had to constantly change how we run. We start from the principle that if there's noise, you better listen.' Currently the technology allows every move of every potential customer to be traced, yielding rich information.

Structurally, the business model is realised through 5, 000 employees, roughly half of whom are in customer support and a fifth in technology. A key role in eBay is 'category manager', a concept Whitman brought to eBay from her days in marketing giant P&G. Category managers direct the 23 major categories as well as the 35, 000 subcategories, from collectibles to sports gear, to jewellery and watches, and even jet-planes.

Conventional companies might spend big money on getting to know their customers and persuading them to provide feedback, but for eBay such feedback is often free and offered without the need for enticement. Even so some of the company's most effective ways of getting user input do not rely on the Net and do not come free. eBay organises Voice of the Customer groups, which involve flying in a new group of about 10 sellers and buyers from around the country to its San Jose (Californian) every few months to discuss the in depth. Teleconferences are held for features and policies, however small a change involve. Even workshops and classes are held teach

people how to make the most of the site. Participants tend to double their selling activity on after taking a class.

The company is governed from both outside and The eBay system has a source of automatic control in the form of buyers and sellers rating each other on each transaction, creating rules and norms. There's an educational system that offers classes around the country on how to sell on eBay. Both buyers and sellers build up reputations which are valuable, in turn encouraging further good behaviour in themselves and others.

When that wasn't quite enough, eBay formed its own police force to patrol the listings for fraud and kick out offenders, the Trust and Safety Dept, now staffed by several hundred eBay employees worldwide. They do everything from trolling the site for suspicious listings to working with law enforcement agencies to catch crooks. eBay also has developed software that recognises patterns of behaviour common to previous fraud cases, such as sellers from Romania who recently started selling large numbers of big-ticket items.

eBay's management

Meg Whitman's style and past has heavily influenced the management of eBay. When she joined the company in 1998, it was more of a collection of geeks, handpicked by the pony-tailed Omidyar, than a blue-chip - something which underpinned Omidyar's recruitment of Meg. Meg, an ex-consultant, filled many of the senior management roles including the head of the US business, head of international operations and vice-president of consumer marketing with consultants.

The result: eBay has become data and metric driven. 'If you can't measure it, you can't control it', Meg says. Whereas in the early days you could touch and feel the way the organisation worked, its current size means it needs to be measured. Category managers are expected to spend their days measuring and acting upon data within their fiefdom.

Some measures are standard for e-business and include how many people are visiting the site, how many of those then register to become users, how long each user remains per visit, how long pages take to load and so on. A measure Meg likes is the 'take rate', the ratio of revenues to the value of goods traded on the site (the higher the better). She measures which days are the busiest, directing when to offer free listings in order to stimulate the supply of auction items. Noise on the discussion boards is used to understand whether the community is in 'supportive' or 'ready to kill you mood' on a scale of 1 to 10. Normal for eBay is around

3. Category managers in eBay, unlike their counterparts in Procter and Gamble, can only indirectly control their products. They have no stock to reorder once levels of toothpaste or washing-up liquid run low on the supermarket shelves. They provide tools to buy and sell more effectively. 'What they can do is endlessly try to eke out small wins in their categories - say, a slight jump in scrap-metal listings or new bidders for comic books. To get there, they use marketing and merchandising schemes such as enhancing the presentation of their users' products and giving them tools to buy and sell better.'

Over and above this unusual existence, the work environment can be tough and ultracompetitive, say ex-eBayers. Changes often come only after

PowerPoint slides are exchanged and refined at a low level, eventually presented at a senior level and after the change has been approved in a sign-off procedure which includes every department. An advance in the ways shoes could be searched for took ten months to happen. Aware that analysis can mean paralysis, Meg commissioned consultants (who else) to benchmark the rate at which change is indeed implemented in eBay.

eBay was rated as average amongst the companies surveyed. Over time eBay has upgraded its ability to ensure the technology does not rule. Until the late 1990s, the site was plagued with outages, including one in 1999 which shut the site down for 22 hours courtesy of software problems and no backup systems. Former Gateway Inc. Chief Information Officer Maynard Webb, who joined as president of eBay's technology unit, quickly took action to upgrade systems. Now the site is down for less than 42 minutes a month, despite much higher traffic.

Meg is a leader who buys into the company in more ways than one. Having auctioned some \$35,000 worth of furnishings in her ski condo in Colorado to understand the selling experience, she became a top seller among the company's employees and ensured that her learning from the experience was listened to by fellow top execs. Meg is also known for listening carefully to her employees and expects her managers to do the same. As the business is as much, if not more, its customers, any false move can cause revolts within the community that is eBay.

Most of all eBay tries to stay aware and flexible.

Nearly all of its fastest-growing new categories emerged from registering seller activity in the area and quietly giving it a nudge at the right moment. For example, after noticing a few car sales, eBay created a separate site called eBay Motors in 1999, with special features such as vehicle inspections and shipping. Some four years later, eBay expects to gross some \$1 billion worth of autos and parts, many of which are sold by professional dealers.

The democratic underpinning of eBay, whilst easily embraced by customers, can, however, take some getting used to. New managers can take six months to understand the ethos. 'Some of the terms you learn in business school - drive, force, commit - don't apply', says former PepsiCo Inc. exec William C. Cobb, now senior vice-president in charge of eBay's international operations. 'We're over here listening, adapting, enabling.'