

Online auctions for everyone on ebay business essay



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EBay was launched in 1995 as an online platform that permitted efficient peer-to-peer trading in an auction format. (Daniels, John D., Radebaugh, Lee H., Sullivan, Daniel P., 2007) The online auction site provided a space on the internet for people to buy, sell, and trade any multitude of items from almost any category imaginable. As for the business itself, the beauty of it is that eBay has no inventory, storage, transportation or production costs associated with their product. The product is simply providing the environment on the web for people to auction their goods. The concept can be thought of much like an electronic garage or yard sale where for a small fee, people can post their items on eBay. The selling price for items posted is totally up to the individual and ebay just obtains a small percentage of the selling price after the auction is complete, usually between 7 and 18 percent. (Daniels, John D., Radebaugh, Lee H., Sullivan, Daniel P., 2007). Therefore, eBay's core competency is simply matching buyer and seller together through an online platform.

Initially, eBay's strategy was to match up buyers and sellers collecting a small fee from each transaction, but the business grew quickly. One reason for the rapid growth was the fact that eBay was providing an outlet for items that were not very marketable by conventional store fronts. Additionally, the internet connect people from all over, making marketing virtually free. By 1999, eBay's net revenues grew to \$225 million and continued to grow to 3.2 billion dollars by 2004. (Daniels, John D., Radebaugh, Lee H., Sullivan, Daniel P., 2007) Up to this point most of the registered users of eBay resided in the United States but the site was accessed by people all around the

globe. The presented eBay with the opportunity to expand globally as a means to increase their value chain.

In order to comply with their company vision of creating the world's largest global trading community and to help people trade, eBay had to expand into the global market by understanding and embracing a decentralized value chain. This meant attracting new registered users from foreign countries by creating largely independent country subsidiaries. For example, eBay began acquiring companies in foreign countries that were similar auction sites. This allowed eBay not only to gain those customers from the acquired company but benefit from the cultural acceptance of that particular company. Many of these foreign businesses operated in their native language making it easier for locals to conduct business with eBay. In time, eBay would change the names of these companies but not lose the customers because they adapted the acquired company to the core competency and company vision. This strategy opened new markets for eBay around the globe.

It is important to reemphasize that eBay's value chain is virtual mainly because there is no real product associated with their core competency. Value chain refers to the real work a business has to do in order to conceive, design, produce, market, and distribute a product and its support to the consumer. In eBay's case, the Internet has circumvented real work for the alternative idea of the virtual value chain. Value is created through virtual networks, rather than through static, internally focused "chains". (Daniels, John D., Radebaugh, Lee H., Sullivan, Daniel P., 2007)

Ebay's initial strategy involved matching up buyers and sellers. The final details of a transaction were totally up to the two parties involved and not eBay itself. Shipping and money transfer were the responsibility of the seller. Ebay began looking for ways to innovate and did so by purchasing the company PayPal which is used to transfer payments between buyers and sellers. Now, not only did eBay provide a medium for customers to conduct auctions, but they also provided a simple way to complete shipping and payment transactions. Again, this added feature is virtual in nature. Ebay still has no real resource involved but collects a fee on any transaction. Therefore the value chain in increased even more.

Ebay began competing with other businesses offering mainstream products for sale on their auction platform. Whereas an auction normally posted an item for sale for a certain amount of time and the highest bidder won, mainstream products would be placed on auction with a reserve and a "buy now" price applied for those not wanting to wait out the time of the auction. The downfall to this is that if the reserve bid was not met, the item did not sell. Although this strategy is still active, more emphasis is now placed on eBay's original strategy. Because individual sellers were overrun by fixed-price retailers they lost interest in the site and buyers began looking elsewhere to search for the less mainstream products upon which eBay built its business. In an article titled eBay's New Strategy: What Was Once Old is New Again, author Matt Pace coined eBay's new strategy as, "It's out with the new and in with the old both in terms of corporate strategy and product mix". After failing to compete as a fixed-priced on line retailer with Amazon.

com and Walmart, eBay decided to revert back to its original premise of an auction clearinghouse for used goods and collectables. (Matt Pace, 2009)

Now that eBay is back to its core competency, what is the way ahead? Profits and growth were beginning to fall based largely on the fact that eBay had not successfully moved into some foreign markets. Because eBay's platform relies on internet usage, many emerging economies were handicapped in the fact that most households do not have internet connections. When faced with this problem, eBay saw an opportunity to grow by moving into the telecommunications market. Ebay purchased the company Skype as a means to penetrate markets where computer access was limited but communications was not. According to Skype President Josh Silverman, "communications is no longer just about voice; it's now multi-modal: mood messages, chat, voice calling, multi-party calling, video calling and online screen sharing. Where and how we communicate is expanding to laptops, mobile phones, and flat panel TV's." "Any connected computing device with the addition of software becomes a communication device". Skype continues to add over 350, 000 new account registrations per day all around the globe. (Jim Courtney, 2009) According to executives, the synergies of standalone businesses, eBay, PayPal and Skype have the ability to pursue new market opportunities and capture future growth. Working together, these three businesses can create entirely new opportunities for innovation and expansion, and redouble the strength of the company's leadership position (eBay-Inc, 2006)

Ebay has continued to reenforce their position in their market by meeting new challenges head on. Tackling problems such as translational software
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and online security is a top priority. Ebay announced cooperation with Yahoo! on phishing and according eBay's CEO, Meg Whitman, " this will be our core competency over the next 10 years." The balance is tricky, but the company has dipped its toe in the social networking waters a few times, most recently on Tuesday when Skype partnered with MySpace to become the world's largest voice network. (Wendy Tanaka, 2007) All of the challenges faced by eBay can be culminated in one small shift in their strategy for the years to come. The initial strategy of providing an environment for buyers and sellers to auction their items has morphed into seeking out new buyers and sellers to use their environment through added values in their value chain.