

Ebay vs amazon

[Business](#), [Company](#)



In a world where trade is increasingly becoming digitalized online, there are new and challenging strategies emerging. This essay aims to analyze and determine these strategies. Considering the example of eBay and Amazon, their business models and their multi-sided platforms, we can compare them to decide which strategies work in this market and how, in the future, they can keep a competitive edge as the market continuously changes. However, as Amazon and eBay have eventually crossed paths in an attempt to expand in the ecommerce market, the question persists whether the market is big enough for both. This essay will look at how eBay and Amazon have evolved their business structure and how changes in the market have caused both firms to reconsider their core strategies and growth strategies.

EBay Vs. Amazon: The Market

EBay and Amazon both operate in the used goods and collectibles market however, they operate in completely different ways. EBay and Amazon currently operate in an oligopolistic market, meaning that the e-commerce market shows some, if not all of the characteristics of an oligopoly market. In 1995 Pierre Omidyar stated the aim of eBay was to ' give the market power back to the consumers, rather than large corporations.' (R. Salehnejad, 2012) This caused eBay's decentralized approach to emerge. The high barriers to entry and exit, large sunk costs and a few large dominant firms operating the market, has made it challenging for any potential competition. Therefore, this has meant that eBay and Amazon do in fact hold large market power as consumers have little in the way of substitutes that can compare to the large consumer base that they offer.

Multi-Sided Platform Competition

Andrei Hagiu (2009) explains that multi-sided platforms bring together two or more independent groups of customers, especially in the ecommerce market. At a basic level the purpose of a multi-sided platform is to reduce search costs of the buyer and the seller. In short, a multi-sided platform ' provides a support that facilitates interactions among the two or more constituents that it serves, such that members of one side are more likely to get on board the multi-sided platform when more members of another side do so.' (Andrei Hagiu, 2009). Multi-sided platforms minimize transaction costs between the two groups, buyer and seller, and in general benefits both parties.

Rochet and Tirol (2004) describe multi-sided platforms as ' enabling interactions between different groups of customers and try to get the multiple sides on board.' In the case of EBay an Amazon, their ability to create a strong brand and hold over the market can be attributed to their large multi-sided platform. The sheer amount of buyers and sellers has allowed the firms to thrive in a market in which other firms have attempted to offer similar products at a much lower cost. For example, in 1998 a free auctioning service was enlisted into Yahoo! and despite no cost to consumers, they still used the well-known, large multi-platforms of eBay and Amazon rather than a much cheaper alternative. (D. L. Reiley, 2009)

EBay: History & Business Model Evolution

Lee (1993) suggests consumerism is moving towards the leisure industry, thus the ease and novelty of sites such as eBay have proven popular. When eBay was first founded it consisted of an online market place for the sale of

goods and services. However, by 2011 eBay offered three primary business sectors; market places, payments and communications. Originally eBay derived its revenue through only one area of its multi-sided platform: the sellers. This was done through listing fees and commission fees. Now, eBay has expanded into over 50, 000 different product areas from its original area of expertise selling collectibles and used goods. Furthermore by 2011 eBay has an online presence venturing into 24 countries, which has allowed for cross-border trading to become another key element to eBay's revenue stream.

EBay was founded on a unique selling point of using auctions to set fair and true value market prices. EBay's business strategy originally used a two-sided platform, founder, Pierre Omidyar (1995), developed the firm out of, what he saw as a, ' need' or ' niche' in the market that needed accommodating. This niche was to develop lower search costs and find a way to determine a fair price in the industry. (I. e. a working price mechanism) Due to high search costs the ' used goods and collectables' market had suffered a stifled growth. Whereas the lack of a price mechanism in the market meant products were sold primarily through bilateral negotiation, through buyer and seller.

This was an issue as it didn't reveal the true prices in the market as little or no competition prevented competitive pricing strategies from emerging. However, the emergence of eBay's auctions feature transformed Bi-Lateral trades into Multi-Lateral trades, facilitating efficient price discoveries. (R. Salehnejad, 2012, Note 3) In 2003 eBay introduced fixed prices using the ' buy it now' function in which eBay still benefited from a listing and

commission fee. This effectively ensured that the merchant always got the price they wanted for a good, not necessarily the market price it deserved. Furthermore, in 2001 eBay introduced 'eBay Stores' allowing firms to offer its products at fixed prices through the eBay site, such as the Home Depot in the USA.

Here it is clear that eBay was moving into Amazon's territory as an online retailer and merchant platform. Although eBay now offers this feature, its business model was founded on the idea of multi-lateral trade between two platforms of buyer and seller. This has enabled eBay to achieve high revenues and over 3.8 million registered users (Hof and Himmelstein). However, due to increasing competition from firms such as Amazon, eBay's business model has been forced to adapt and expand into areas such as fixed pricing and online storefronts. Will eBay remain a predominantly auction based web page or will it continue to commercialize and transform its strategy into that of its rival's such as Amazon?

Amazon: History and Business Model Evolution

Unlike eBay, Amazon first tackled the market by using a one-sided platform strategy for its online bookstore. Amazon developed a merchant platform that focused on the seller as its only customers, unlike eBay who considered both seller and buyer. However, as Amazon grew it began to consider another platform, the buyer. Amazon quickly developed a platform envelopment strategy (R. Salehnejad, 2012, Note 4) as it had such a large buyer and seller base. This was a strategic way to ease itself into a multi-sided platform between 2000-2001. Amazon's CEO, Jeff Bezos in 2001, indicated that this strategy was developed after expanding into zShops, he

stated that 'one of the things learnt through zShops was that we needed to think of ourselves serving two distinct sets of consumers.' (R. Salehnejad, 2012, Note 4) Thus Amazon began its transition to a multi-sided platform.

Amazon's founder Bezos has argued that the perfect business strategy is one that focuses on growth rather than profit. (S. Khrishanmurthy, 2004) Amazon did not gain any profit until its 4th quarter of 2001 but grew significantly large as a firm in that time. One way in which it grew was through expanding into markets such as CD's by convincing customers who already bought books through Amazon to buy other products. This helped the firm to benefit from economies of scope as it already had the available infrastructure and supply chain to facilitate such expenditure.

The difference between web-based platforms to those used for normal goods and services is that they benefit from network externalities. Network externalities were defined by S. J. Lebowitz as: 'a change in the benefit, or surplus that an agent derives from a good when another number of agents consuming the same kind of good changes. (S. J. Lebowitz, S. E. Margolis). It could be suggested that in the battle between eBay and Amazon to prevail in the online market the key strategy should be to 'grow big, fast.' (R. Salehnejad, 2012, Note 5) In order to exploit these network externalities and strengthen both sides of its multi-sided platform, Amazon has had to expand quickly into other areas such as zShops and its Fulfillment service.

Considering the pricing strategy for Amazon, it is clear that they focus on a cost-leadership strategy. As previously stated, Amazon aims to 'grow big, fast' in order to achieve economies of scale. This allows the firm to have a lower average cost, as economies of scale reduce the cost per unit of a good.

Therefore Amazon has used the low cost to create low prices by having much slimmer profit margins than they otherwise could. This could be one reason in explaining their vast market share and competitiveness in the market. For example, when Amazon announced the Kindle in 2007, it sold for a much lower price than any other tablet in the market, at just £69.

Amazon did this in order to gain market share so as many people as possible could own a kindle in order for Amazon to become the main seller of content, the books. (Gans, 2012) However, its rival's, Apple, had no interest in their content market, Apps and Widgets, and were purely concerned with selling the tablet. Therefore, it retailed at a much more expensive £959.

Here amazon is clearly 'pursuing a retail model' (Gans, 2012) which does differ from its web-based store strategy and again However, Amazon began to offer auctions in 1999, much like those of eBay, and therefore diversified its strategy by holding a price discovery mechanism rather than its usual cost-leadership approach. It could be argued that the increasing competition in the web market has lead to this mechanism becoming less effective as big firms such as eBay and Amazon can now manipulate costs, such as listing and commission fees, in order to compete with each other, thus possibly reducing the effectiveness of the model.

Looking Ahead: Strategy Lessons

Since they were founded in 1994 and 1995, both Amazon and eBay have altered significantly and although they have always operated in the same market, they have very different visions on strategy. EBay has predominantly used a decentralized approach in its business plan, allowing the buyers and sellers to take control of the market. However, eBay's

approach is becoming increasingly centralized through events such as the acquisition of PayPal. This shows eBay are becoming progressively involved in the trade process between buyer and seller.

eBay has always used its comparative edge of having no fixed costs in terms of warehouses and supply networks, unlike Amazon who uses this as their core advantage, to become widely available around the world at the click of a button. This ease allows eBay to exploit as many different markets as it possibly can which has seen them develop as a firm, for example, through offering online store fronts firms can sell through eBay at a fixed price to anywhere in the world, while at the same time eBay still maintains its 'peer to peer' strategy.

Whereas, Amazon uses its expanse of infrastructure and supply chain to its advantage with programs such as Fulfillment offering clients the availability of Amazon's delivery and warehouse facilities, for a fee. This allows Amazon to develop a multiple revenue stream and this has been proven to work with the recent acquisition of Love Film.

Learn also which statement correctly compares the two businesses?