

Ebay case analysis

Business



We express gratitude from the core of our heart to Allah, the Almighty God of the universe who enabled us to undertake and complete this research work. Secondly we would like to thank our Prof. Abdul Qadir Molvi for his unending support right from the stage the idea was conceived who provided me his research and statistical assistance, without his supervision and guidance it was not possible for us to finish this report. Finally heartfelt appreciations from our parents who made us endure all the times with their warm wishes.

ThanksEbay14th December , 2010 Mr. AbdulQadir Molvi, DEAR Mr.

AbdulQadir Molvi: Here is the report on “ eBay”, authorized by Mr.

AbdulQadir Molvi, on the month of October 2010 and we are submitting it to you on 14th December, 2010. This report highlights the financial analysis of the case, Porter’s 5 forces Model, SWOT analysis, Pest analysis, Internal and External factor analysis, Internal and External Matrix, Space Matrix, Recommendations, Current Scenario and Financial Analysis of eBay. Initial data is collected by the help of the case study on eBay.

Secondary data is collected from the internet and the website of eBay.

Special thanks to all the group members for their cooperation and you Sir for providing us with the case study. If you need any assistance in interpreting this report you can contact us. It has been a great privilege working for you on such an interesting report. Sincerely yours, Atika Imtiaz (7184), Hira Sarwar (7208), Khadija Tahir (7554), M.

Waqas Moghul (7727), Natasha Akber (7546), Shayan Rasool(8093).

INTRODUCTION TO eBAY : eBay, Inc. was founded in 1995 by Pierre M.

Omidyar and is headquartered in San Jose, California. The first ‘ office’ of

eBay was the living room in the residence of the man who founded the website.

. eBay started off as a part of a large personal website. It was formerly known as Auction Web. One of the first items to be sold on eBay was a broken laser printer belonging to the site's founder himself, which went for \$13.83.

It is an interesting story that eBay was formed to help Omidyar's fiancée buy and sell PEZ candy dispensers. eBay is a global phenomenon, the world's largest garage sale, online shopping center, car dealer and auction site with 147 million registered users in 30 countries as of March 2005. Visitors can find everything from encyclopaedias' to olives to snow boots to stereos to airplanes for sale. eBay, together with its subsidiaries, provides online marketplaces for the sale of goods and services, online payment services, and online communication offerings to a diverse community of individuals and businesses in the United States and internationally. In 1995, eBay founder Pierre Omidyar designed the web site with the idea of an on line marketplace where people would be able to sell and buy goods. Today, that small virtual trading space has become an amazing global phenomenon, stretching and reinventing the limits of e commerce.

1998 brought a major change in eBay's future, when Meg Whitman was brought in by Pierre and his cofounder Jeff Skoll . She was a Harvard Business School graduate who understood the high importance of branding and advertising. After her arrival, eBay received a different view on business: it was no longer just a place that allowed individuals to sell items, it was a

place where people would connect and create affiliations, just how Pierre conceived it; “ a democratized, efficient online marketplace that would facilitate a person to person trading community in which everyone could have equal access through the same medium, the Internet. .

A highly skilled and experienced staff, recruited from companies such as Disney, sustained this new vision. The 20-year average business experience in management that the staff presented was a good reason why eBay was and still is on an ascending trend (why eBay is thriving will be discussed in detail in the report.)

FINANCIAL ANALYSIS OF THE CASE: | 2003| 2002| 2001| 2000| 1999| 1998| 1997| Net Profit Margin| 20. 7%| 20. 6%| 12. 1%| 11. 2%| 4. 3%| 8. 4%| 17. %| equals NI/sales| | | | | | | | | | | |

Return on total assets| 7. 7%| 6. 2%| 5. 4%| 4. 1%| 1. 0%| 4. 9%| 125. 7%| equals NI/total assets | | | | | | | | | | | |

Gross Profit Margin| 80. 8%| 82. 4%| 82. 0%| 77. 9%| 74. 4%| 81. 3%| 79. 7%| equals (sales – cogs)/sales| | | | | | | | | | | |

Return on Stockholders Equity | 7. 7%| 6. 1%| 5. 4%| 4. 1%| 1. 0%| 4. 9%| 125. 7%| equals NI/total stockholder equity| | | | | | | | | | | |

Operating Profit Margin| 29. 1%| 29. 4%| 31. 1%| 30. 6%| 28. 5%| 25. 8%| 23. 9%| equals profs. before taxes & interest/Sales| | | | | | | | | | | |

Current Ratio| 331. 5%| 380. 2%| 490. 6%| 491. 5%| 517. 4%| 479. 6%| 459. 8%| equals profs. before taxes & interest/Sales| | | | | | | | | | | |

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7%| 395. 8%| 441. 9%| equals current assets/ct. liabilities| | | | | | | | | | |
 | | | | Debt-to-assets ratio| 15. 9%| 12.

0%| 14. 9%| 14. 3%| 11. 6%| 32. 8%| 28. 2%| equals total debt/total assets| |
 | | | | | | | | | | | | * All numbers in thousands of dollars.

	2003	2002	2001	2000	1999	1998	1997
Current Assets	2,145,882	1,468,458	883,805	675,464	459,834	97,590	4,967
Total Assets	5,820,134	4,040,226	1,678,529	1,182,403	963,942	149,536	5,619
Current Liabilities	647,276	386,224	180,139	137,442	88,825	24,656	1,124
Total Liabilities	923,892	483,753	249,391	168,643	111,475	48,998	1,586
Sales	2,165,096	1,214,100	748,821	431,424	224,724	86,129	41,370
Cost of Goods Sold	416,058	213,876	134,816	95,453	57,588	16,094	8,404
Net Income	447,184	49,891	90,448	48,294	9,567	7,273	7,061
Total Stockholders' Equity	5,820,134	4,124,444	1,678,529	1,182,403	963,942	149,536	5,619
Profits (Loss) Before Taxes ; amp; Interest	629,241	354,197	140,426	34,994	(3,373)	12,765	9,983
Total Debt	923,892	483,753	249,391	168,643	111,475	48,998	1,586

Current ratio has been increased from 4.41 to 5.17 from 1999 in 3 years which indicates that the working capital has increased so rapidly and hence the short term creditors prefer the performance of the company which has reduced risk. But shareholders may prefer a lower current ratio so that more of the firm's assets are working to grow the business. Similar results are shown for the quick ratio as well because zero inventory is being followed. Average collection period with 0 days is quite normal with the online auction business as every transaction happens real-time.

Fixed asset turn-over starting with 16.17 in 1996 and reducing to 0.28 in 1999 indicates that more mechanisms have been adopted to reduce the risk in inventory maintenance. Debt ratio indicates the dependency on classification of long term leases and on the classification of some items as long term debt or equity. It has been reduced from 0.28 in 1997 to 0.142 in 2000. Similar figures can be seen for the debt-to-equity ratio as well.

Profitability ratios such as gross profit margin, offer several different measures of the success of the firm at generating profits. Having a gross profit margin of 79.7% in 1997 and reducing it to 74.% in 1999 indicates that the industry's existence is not as healthy as it used to be in '96 and '97.

With the entrants of other online auction player into the arena Ebay needs to stay focused on maintain its profit margins. Return on asset is a measure of how effectively company assets are being utilized for generating profits. Starting with 125.7% in '97 and decreasing to 1.0% shows the clear sign that resource wastage has been increased dramatically. Management should take special concern in efficient resource usage of the company.

Return on equity is the bottom line measure for the share holders, measuring the profits earned for each dollar invested in the firm's stock. The variation in the increase and decrease from '96 to '98 shows that the share market price may vary so fast due to investors' change in behavior. PEST ANALYSIS POLITICAL Globalization, leading to expansion in the international market and entry into new markets Government Policies Regulatory bodies and processes increasing customer security in online shopping and costs for

online businesses. Approval from U. S. Securities and Exchange Commission to raise equity capital.

| ECONOMIC Instability in exchange rates effects demand from overseas customers
 Fluctuating interest rates
 Recession has slowed down the pace of growth
 Taxation- a higher taxing of profits, impact on consumer disposable income. SOCIAL Lifestyle trends – further integration of the internet in the daily lives of the people. Consumer buying patterns – an increasing move towards purchasing goods and services online
 Brand image as market leader is under threat with the number of competitors increasing
 Demographics – Increase in number of senior citizens using Ebay
 Improved living conditions of the society| TECHNOLOGICAL Consumer buying mechanism- an increasing move towards online shopping
 Respond instantly to innovations in a rapidly changing technological environment. Rate of technological obsolescence
 eBay might be confronted with further patent or licensing issues, which can do them major harm| PORTER’S FIVE – FORCES MODEL: In the external environment there is no major force acting on eBay except for the Rivalry between competing firms. This makes the competitive structure of the industry very attractive, from profit making prospective, for new firms to enter.

RIVALRY AMONGST COMPETING SELLERS: The rivalry amongst the competing sellers is very strong. In fact it is the strongest of the five forces acting on eBay. Companies aggressively take fresh moves to threaten each other’s position. There is rapid industry growth and daily entry and exit of firms. Users have very low switching costs because these online auctions have very low switching costs. competitors in either the same form or other have been
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trying to get a piece of eBay's market ever since the industry emerged.

eBay's major competitors are Amazon.com, uBid.com and Yahoo! Auctions. *

Online retailers are partnering with shopping search engines to allow customers to compare prices which eBay does not facilitate.

Which in fact no online auction site, alone, can facilitate. * Online auction specialists are operating various different auction sites for different companies, thus increasing eBay's rivals in numbers. * Fair Market; a leader in online auction outsourcing provided many companies with a means of selling their goods and services. By this it is trying to target eBay's customers who use eBay as a distribution channel to make their products available in the market (mainly companies.) * eBay has had to use another small web site, Half.

com, to compete with other fixed price sellers, like Amazon.com, who come up with new strategies every day. * uBid.com, who ranks second to eBay in the online auction industry, offers warranties on all its product offerings so as to attract those users who do not feel secure about shopping online. * Yahoo made sure it also operated locally in all those countries where eBay was local. And to top that, it operated in local languages in those countries.

* Amazon.com product selection was very limited (and entirely opposite) as compared to eBay but still it was a very rapidly growing online auctioneer. This was a major threat to eBay, because establishment of a good brand reputation for Amazon meant that it would become eBay's cut-throat competitor. SUPPLIERS Suppliers here are the sellers, who list their products for auction at eBay. The threat of suppliers is very low for small sellers

(individuals) as compared to groups like Web – Hosting services or power sellers have modest bargaining power over eBay. This is because these Web-Hosting Companies are a major component is operating a low-cost structure website.

eBay is usually on good terms with its suppliers because as it is the market leader holding 64.3% share, it is providing the maximum business to these hosting services. And as far as power-sellers are concerned; big companies are using eBay as a distribution channel, for cost effective delivery of their products, they are on equal grounds with eBay. In fact, these power-sellers abide to all requirements of eBay without much commotion. To eliminate the threat of Suppliers and other members of this industry's value chain, eBay has aggressively sought for strategic collaborations and partnerships.

eBay had a portfolio of over 250 strategic partnerships in 2001. THREAT OF SUBSTITUTES The threat of substitutes to eBay is very moderate because, they are not as convenient as online auctions. They typically do not have much product variety as compared to online auctions. Buyers have lower switching costs of moving to the substitutes because there is the benefit of quick access to the product when it comes to physical retailers. * Retail Stores enable you to compare products/prices and provides a secure payment mode. * All local auction houses, sales, flea markets, collectible shows, liquidators, brick and mortar retailers, import and export companies and catalogue and mail order companies are potential substitutes of online auctions; though neither is as strong as it.

There are also a growing number of online retailers (not auctioneers) who are playing as substitutes to the auction sites. For e. g. Walmart is now an online retailer as well.

BUYERS The threat of buyers is usually weak from individual buyers and moderate from power buyers. This keeps the overall threat from buyers weak. This is because individuals buy in small quantities and they have little leverage and negotiation power against large companies. Where as groups make up a large percentage of sales at online auctions. * This is a convenient way for buyers to collect difficult to find items and so there is usually less commotion about buyer demands.

This is also because the industry is so dynamic and proactive that before a buyer's need is created a solution for it is materialized. * This is the purest form of market that buyers increasingly demand when they are low on cash and excess on garbage. The purest barter system. * Fixed Price sales have ticked of some buyers, but this is not a strong threat from buyers because eBay has alternate channels for them. * Continuous feedback from buyers; online auction companies are always in touch with its customers.

THREAT OF NEW ENTRANTS This is a moderate threat. There are relatively few entry barriers in this industry except for marketing and brand equity. There are very low capital requirements for web-based companies to enter this industry and this industry also has fruits for higher profits. Despite all this, eBay's brand image and dominance discourages many new firms from entering this industry. * The major threat of entrants could be the rise of

online auction outsourcing to Online Auction Specialists. They operate online auctions for many online retailers.

However they don't enter the industry as an individual company. * The number of companies in this industry increased after 1998 when Open Site Technologies started selling software those made it easy to create and operate online auction sites. SWOT ANALYSIS| Strength| Weakness| 1. First Movers Advantage| 1. Dissatisfied small sellers| 2.

Leading global brand for online auctions (64.3%)| 2. Confidentiality issues| 3. Vast audiences with diverse needs| 3. Feedback forum doesnot guard against fraud| 4. Low Operating Costs| 4.

System overload and site crash was impossible to eliminate| 5. Commerce engine for new businesses| 5. Retaining its traditional values with its rapid growth| 6. Equal access for everyone in that medium| | 7. Personal Touch| | 8.

Financially sound| | 9. Portfolio of 250 strategic partnerships| | 10. Cost effective and convenience trading| | 11. Easy search| | 12. Operating locally in many countries| | 13. Continuous exchange of updated info| | 14.

Buying has become a generic term that facilitates direct transactions| | 15. Broader customer base than physical shops| | 16. Trading at all hours| | Opportunity| Threat| 1. Rising e-commerce industry| 1. Daily change in industry| 2. Expansion to China and Taiwan| 2.

Economic slow down| 3. Complete integration of Half. com and eBay (move to fixed price auction)| 3. Consumer reluctance to shop online due to security issues| 4. Web-enabled cell phone| 4. Credit card security| 5.

Online auction boom| 5. Growing number of online retailers (2750 by 2001)| 6. Manufacturers and Merchandisers prefer outsourcing distribution| 6. Other specialized online auctioneers| 7. Establishing community affinity to enhance loyalty| 7. International competitors | 8.

Growth of value conscious shoppers| 8. Uncontrollable costs | 9. Acquisition of a web enabled voice over| | 10. Undiscovered clientele in USA | | 11.

Expansion of big ticket items (real estate, autos)| | INTERNAL AUDIT:

STRENGTHS: eBay is the largest online trading forum with a 64. 3% revenue share, compared to 14.

7% of Amazon. com that ranked second to eBay, as of May 2001. They have a first mover's advantage, because they have a reputation of being the initiators of this concept and all online auctioneers know that they are the best in their business. eBay. om has an ever-growing large and diverse customer base.

They can cater to a greater number of customers as compared to a physical retailer. And this diverse customer base has enforced eBay. com to narrowly define their product categories and increasing them from 10 (in 1995) to 8000 categories (May 2001), to serve the customers better. These narrowly define categories make the search very easy for customers as compared to the physical effort in the traditional search for the desired object. Compared

to the conventional retailing, eBay facilitates a convenient and cost-effective trading system that saves your time and other valuable resources.

It is a 24-7-365 trading system that enables continuous exchange of updated information about products. One can at any hour of the day make a transaction, as per their desired need. Expansion of eBay is easier than that of the other retailers because eBay has very low operating costs. It does not have to incur any costs generic to other business because it operates on a ZERO INVENTORY principle. Its' operating costs are also low because for all its businesses it has shared resources. And because of its low costs, eBay has become a commerce engine for new businesses (discussed below).

eBay permits equal access for everyone in its' medium, whether it's an individual , company or a government organization. Other than equal access, it also gives a personal touch to each transaction being conducted on its website, as a buyer can get all his desired information about the item of interest from the owner of that item, via its chat rooms. eBay became a public company in 1998 and ever since then, it has never had a liquidity crunch (that its financial ratios clearly indicate). It is a good rated public limited company and is very financially sound. Its' good financial position has enabled t to acquire a portfolio of above 250 strategic partnerships.

This further reduces their costs of operation and reduces the customers' tension about high hidden costs. eBay operates locally in many countries, namely Canada, UK, Australia, New Zealand, Germany, Japan, South Korea, Belgium, France, Italy, Brazil, the Netherlands, Portugal, Spain, Sweden and many others. This local operation eliminated a great deal of its international

competition in these countries and since eBay is a giant company, it can easily kill the competition by the Local companies. WEAKNESSES: Even though eBay has an ever-growing customer base, yet its small customers, who are founders of this forum, are very dissatisfied with eBay. The reason of their dissatisfaction is not eBay's poor performance but their neglect toward the small, individual sellers and strong focus on big, multi-national corporations. This dilemma is the result of eBay's diverse and growing customer base, which results in another problem for eBay.

The problem is that whether eBay would be able to retain its traditional values with its rapid growth. The individual customers who basically come to eBay for the search of a person to person transaction have already formulated their conclusion that eBay has lost its self to those big companies i. e. lost its traditional values. eBay requires its sellers to place their credit card number and their bank account information on their account, which may users felt is exploiting their confidentiality.

Many users are dissatisfied with this requirement of eBay as the rate of internet fraud is still very high. To cater to the problem of internet fraud, eBay launched a Feedback Forum where after completion a transaction, the buyer and the seller was required to post their feedback on each party's accounts. This gave the new prospects an idea about the credibility of the person they may want to trade with. However, eBayers feared that the Feedback Forum was not a complete remedy for internet frauds. eBayers still felt that they were very vulnerable to be cheated.

Other than this, System overload and Site-crash were impossible to eliminate. eBay spent millions on their new system by contracting with Maynard Webb, a premier software engineer and trouble shooter at Gateway computer. Webb felt that they can minimize the site's outage duration (which they have faced quite a few times) but it is virtually impossible to eliminate this problem altogether. EXTERNAL AUDIT OPPORTUNITY: The industry in which eBay operates, the online auction industry, has good future prospects from when it began. This is because the e-commerce industry is a rapidly rising industry and eBay can grow unquestionably with it.

This is because the future will be of the web-enabled cell phones. This signifies that to search for their desired items consumers would not wander around the shops browsing for products; instead they will browse through web pages to find the desired match. And to capitalize in the future on this predicted opportunity, eBay must today build a brand reputation that makes it the undisputed leader in tomorrow's market. Also that eBay must think of expansion into the Chinese and Taiwanese market. This is because they are very large markets and internet usage is expected to grow fastest in these areas. 28% of the world-wide B2B commerce was expected to occur in Asia/Pacific.

eBay must fully integrate with Half.com and move toward the fixed price auctions which will prove to be more profitable for eBay as well. There was also an online auction boom in 2001, which eBay can capitalize on. eBay can do that by establishing strong community affinity amongst its members to enhance their loyalty. This is because one such an affinity is on the rise; it is very unlikely that you will lose customers.

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This is because there is a growing increase in value-conscious buyers. These buyers want to participate in auctions to find the best bargain. There are many companies who are only using eBay as a distribution channel to avoid involving their resources and time into distribution. These are usually big companies who are now a significant portion of eBay's customer base. eBay can acquire a web-enabled voice over to enhance the personal touch and strengthen its community affinity as members can interact more effectively with one another.

This will also to a certain extent decrease the uncertainty of members to trade online. eBay must focus more on big-ticket items to increase its profitability. This is because such transactions occur after a lot of search and exchange of information which enhances eBay's community affinity further. There is also a large and undiscovered clientele in USA itself whose needs are uncovered by eBay. eBay must explore their requirements and meet them to fill in the loop holes.

THREATS: This industry is very dynamic. The complexion of the industry changed almost daily with the entry of new competitors, exit of existing firms and the introduction of strategic initiatives by firms of all sizes. There was also an economic slowdown in the US during 2001 and also the rising rates of inflation can put a crunch in eBay's liquidity and financial strength. Even though the prospect in the e-commerce industry, there is still nervousness about using internet to shop because the rate of internet frauds is still very high. The growing number of online retailers, like Walmart, is also a growing competition to eBay because they like eBay offer almost

everything that consumers want and at a fixed discounted price. The number of online retailers grew to 2750 by the year 2001.

Also there are many uncontrollable costs those increase the prices of the goods purchased on eBay well above the auctioned price. These uncontrollable costs include shipping costs, insurance, listing fee, memberships charges etc, those are not included in the auction price of the items listed. INTERNAL FACTOR ANALYSIS: Bay owns and operates eBay.com, which is the leading person to person auction based community on the web. The company is a giant market place used by over 100 million users who treat eBay as a shopping medium for their relevant needs ranging from toys to antiques. IFE MATRIX FOR eBay| Critical Success Factors| Weight| Rating| Weighted Score| Strengths| | | | Leading global brand for online auctions| 0.

1| 4| 0.40| Vast audiences with diverse needs| 0.1| 4| 0.40| Commerce engine for new businesses| 0.025| 3| 0.

08| Ebaying has become a generic term that facilitates direct transactions| 0.15| 4| 0.60| Financially sound| 0.025| 3| 0.08| Low operating costs| 0.15| 4| 0.

60| Weaknesses| | | | Dissatisfied small customers| 0.075| 4| 0.08| System breakdowns could affect the trading activities of the company | 0.025| 3| 0.08| Inability to control the auction items and checking is done after auction has been posted| 0.

05| 3| 0. 15| Increased shipping costs which overall raises the product cost to consumers| 0. 1| 3| 0. 30| Consumers fleeing to retail stores for a better bargain| 0. 1| 4| 0. 40| Sellers being able to enforce the payment method of their choice giving rise to email scammers| 0.

1| 3| 0. 30| TOTAL| 1. 00| | 3. 45| Leading Global Brand for Online Auctions: Bay operates the leading auction community on the internet. Market leadership will benefit eBay in a number of ways. Firstly the company will be able to maintain a high level of brand awareness for the company and its offering and will also enable it to exert a greater influence in the market place.

For example the company will be able to fight with any new competition or entrants entering into the market. Vast Audiences with Diverse Needs: The company caters to a wide range of audience who shop online for their various purposes. The most frequent shoppers include Bargain Hunters on eBay who mostly comprise of high school and college students. Similarly the auction site is a popular medium for adults and middle aged people who have different shopping needs ranging from toys for their children to antique shopping for their homes. Commerce engine for new businesses: This was an option for other businesses to cash on the online auction boom.

eBay created API (Application Program Interface), that enabled other businesses to use the eBay commerce engine to power their own businesses, eliminating the time and expense from the start-up process. Ebuying has become a generic term that facilitates direct transactions : The strength of the brand is increasing as it now benefits from an increase in brand

awareness and brand recognition. The term E-baying is now being used as a swap word for shopping online which shows the dominance the brand has over other rivals. The increased equity of the brand will help it to generate increased sales and profit. The need for an intermediary has been eliminated in this process, thus making the transaction more cost effective. The benefit of direct transactions is the basis of this business.

Financially sound: The company has appeared to be able to fund new strategic initiatives and grow. eBay's revenues have increased, without fail, each month; making its financial position better than it was before. They have enough cash both to keep themselves stable and to invest in new strategic activities. Low Operating Costs: The best thing about eBay is its business model which means that eBay has no inventory and low capital requirements. eBay's business model also helps the company to help increase its gross margin while keeping its operating costs pretty low

EXTERNAL FACTOR ANALYSIS: EFE MATRIX FOR eBay| Critical Success Factors| Weight| Rating| Weighted Score| Opportunities| | | | Acquisition of a web enabled voice over| 0.

15| 2| 0. 30| Introduction of Paypal| 0. 1| 4| 0. 40| Market Development (eg aspirating consumers in China and India)| 0. 2| 3| 0.

60| Undiscovered clientele in USA | 0. 05| 2| 0. 10| Online auction boom| 0. 1| 3| 0. 30| Threats| | | | International competitors | 0.

1| 3| 0. 30| Company has to cope with fraudulent activities| 0. 15| 4| 0. 60| Uncontrollable costs | 0. 05| 3| 0. 15| Consumer reluctance to shop online due to security issues| 0.

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1| 2| 0. 20| TOTAL| 1. 00| | 2. 95| Acquisition of a Web Enabled Voice Over: Acquiring a web enabled voice over will enable the buyers to talk directly to seller using an integrated voice medium. This is altogether a new opportunity for eBay as it helps bring the buyers and sellers closer eradicating any mistakes or inefficiencies that occur on non verbal mode of communication Introduction of PayPal: The acquisition of PayPal has helped the company enhance its customer's experience of eBay. This has had a knock out effect and has helped boost the customer's satisfaction of eBay.

Acquisition with PayPal has increased PayPal's revenues rise by around 90% year on year while an 80% increase in volume of sales which is also expected to increase on further. Market Development: eBay already has had some success in its international expansion efforts. Revenues derived from international activities currently account for around 30% of the company's overall revenues. The company could look to further its international expansionist efforts in order to capture a leading share in markets that at present are untapped but have a high potential to generate revenues in future Undiscovered Clientele in USA: Bay could seek to diversify in markets in which it does not operate at present and can leverage the technological know-how and the brand name its possesses to its benefit. Untapped consumers who are unaware of the benefits of eBay can be prospecting buyers for the company and it would help the company to further on generate an increase in its revenues and profits. eBay should adopt a strategy that will allow it to capture maximum of these potential users that could benefit the company Online Auction Boom: Internet usage is expected to grow over the forthcoming years.

The increase in usage will provide eBay with an opportunity to boost the number of users it has as well as its revenues and profits. It will help increase the rise in auction which is seen to rapidly rise over the past few years. With the use of broadband technology the boom has been gradually spreading all over and is predicted to rise to greater lengths as well. THE INTERNAL-EXTERNAL (IE) MATRIX | | | | | | | | | | | | | | | | The IFE Total Weighted Score | | | | | | | | Strong | Average | Weak | | | 3. 0 to 4. 0 | 2.

0 to 2. 99 | 1. 0 to 1. 99 | | High | II | III | | | 3. 0 to 3. 99 | | | | | Medium | IV | V | VI | The EFE Total Weighted Score | | 2.

0 to 2. 99 | eBay | | | | Low | VII | VIII | IX | | | 1. 0 to 1. 99 | | | | | | | | GROW AND BUILD | | TOWS MATRIX | | | Strengths | Weaknesses | | | 1. | Leading global brand for online auctions | 1.

| Dissatisfied small customers | | | 2. | Vast audiences with diverse needs | 2. System breakdowns could affect the trading activities of the company | | | 3. | Commerce engine for new businesses | 3. | Inability to control the auction items and checking is done after auction has been posted | | | 4. | Ebaying has become a generic term that facilitates direct transactions | 4.

| Increased shipping costs which overall raises the product cost to consumers | | | 5. | Financially sound | 5. | Consumers fleeing to retail stores for a better bargain | | | 6. | Low operating costs | 6. | Sellers being able to enforce the payment method of their choice giving rise to email scammers | Opportunities | S-O Strategies | W-O Strategies | 1.

| Acquisition of a web enabled voice over| 1. Ebay must acquire skype, to increase trust of its users for a secure transaction/ can transfer its expertise| 1. | Collaboration with an insurance company to provide insurance to those who suffered from fraudulent transactions| 2. | Web enabled cell phones| 2. | Chinese expansion- Boost efforts to become one of the key players in the Chinese market| 2. | Devise an authorized and easy payment procedure by making eBay act as the intermediary so that fraud is avoided| 3.

| Market Development (eg aspirating consumers in China and India)| 3. | Localization-making it act as the primary feature can help a whole new set of buyers and sellers| 3. | Come with up a digital signature so that the company authority and validity can be maintained| 4. Undiscovered clientele in USA | 4. | Broadening company's trading platform by growing existing product categories, promoting new product categories and offering services for specific regions| 4. | Introduction of Shipping Calculator so that exploitation of customers is avoided and a fair amount idea of the cost is given to them| | 6.

| Devise a eBay guide for people who are unfamiliar to online auctioning on the web so that the whole process of auctioning becomes easy for them| 6. | Focus on effective marketing strategies by closely observing the culture and demographics of countries where the aspirating clientele ratio is high| | 7. Partnership with a social networking website such as Orkut| 7. | Expanding pre and post trade value added services such as assistant with scanning and uploaded photographs of listed items and arrangements to make shipping of purchased items easier| Threats| S-T Strategies| W-T Strategies| 1. |

International competitors | 1. | leverage its brand name to out compete the competition in international market| 1.

| Must pay extra attention to accommodate small sellers| 2. | Company has to cope with fraudulent activities| 2. | Must introduce a users archive which must be exchanged between the buyers and sellers (on request) before a transaction| 2. Preserving the core business by following their original success in the auction industry| 3. | Uncontrollable Costs| 3. | Focus on items such as digital equipments and gadgets as they are the leading trend in younger generation which may lead to expand the brand image using word to mouth marketing| 3.

| Fostering eBay community and affinity through services such as user verification and insurance| 4. | Consumer reluctance to shop online due to security issues| 4. | Enhancing website functionality and avoiding spams by introducing personalized features on the site such as about me which permits users to create their own homepage free of charge to avoid spammers and to rebuild trust in consumers| 4. Developing international market place by actively marketing and promoting the website in selected countries| | | 1. 6.

| | 5. | Creating special shopping offers in festive seasons such as Christmas as shopping rate goes up during the 4th quarter. | Space Matrix: SPACE MATRIX| FINANCIAL STRENGTH (FS)| | ECONOMIC STABILITY (ES)| | RETURN ON INVESTMENT (ROI)LEVERAGELIQUIDITYWORKING CAPITALCASH FLOW| 62656| RATE OF INFLATIONTECHNOLOGICAL CHANGESPRICE ELASTICITY OF DEMANDCOMPETITIVE PRESSUREBARRIERS TO ENTRY INTO MARKET| -1-4-3-

5-6| FINANCIAL STRENGTH (FS) AVERAGE| 5| ENVIRONMENT STABILITY (ES)
 AVERAGE| -4| | COMPETITIVE ADVANTAGE (CA)| | INDUSTRY STRENGTH (IS)| |
 MARKET SHARE PRODUCT QUALITYCUSTOMER LOYALTYTECHNOLOGICAL
 KNOW-HOWCONTROL OVER SUPPLIERS AND DISTRIBUTION| -1-2-2-3-5|
 GROWTH POTENTIALFINANCIAL STABILITYRIVALRY AMONG
 COMPETITORSRESOURCE UTILIZATIONPROFIT POTENTIAL| 54446|
 COMPETITIVE ADVANTAGE AVERAGE| -2. 6| INDUSTRY STRENGTH AVERAGE| 5|
 Competitive Profile Matrix(CPM): COMPETITIVE PROFILE MATRIX(CPM)| | |
 EBAY| AMAZON| YAHOO! | CRITICAL SUCCESS FACTORS| WEIGHT| RATING|
 SCORE| RATING| SCORE| RATING| SCORE| ADVERTISINGMARKET
 PENETRATIONCUSTOMER SERVICEBRAND AWARENESSUSER FRIENDLY
 WEBSITEREVENUE GROWTHFINANCIAL CONDITIONCUSTOMER
 LOYALTYMARKET SHAREPRODUCT QUALITYINFORMATION ABOUT USERPRICE
 COMPETITIVENESS| 0. 050. 060.

080. 100. 050. 150. 150.

050. 100. 080. 050. 08| 243433344443| 0.

100. 240. 240. 400. 150. 450.

50. 200. 400. 320. 200. 24| 444444234443| 0.

200. 240. 320. 400. 200. 600.

300. 150. 400. 320. 200. 24| 122222231433| 0.

050. 120. 160. 200. 100. 300.

300. 150. 100. 320. 150. 24| TOTAL| 1.

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00| | 3. 39| | 3. 57| | 2. 19| QUANTITATIVE STRATEGIC PLANNING MATRIX FOR
eBay| | | Strategic Alternatives| Critical Success Factors| Weight| Chinese
Market Expansion| Collaboration with a social networking site| Strengths| |
AS| TAS| AS| TAS| Leading global brand for online auctions| 0. 10| 4. 00| 0.
40| 4. 00| 0. 40| Vast audiences with diverse needs| 0. 10| 3. 00| 0.
30| 4. 00| 0. 40| Commerce engine for new businesses| 0. 03| 2. 00| 0. 05| 2.
00| 0. 5| Ebaying has become a generic term that facilitates direct
transactions| 0. 15| 3. 00| 0. 45| 3.
00| 0. 45| Financially sound| 0. 03| 3. 00| 0. 08| 4. 00| 0.
10| Low operating costs| 0. 15| 2. 00| 0. 30| 2. 00| 0. 30| Weaknesses| | | | |
| Dissatisfied small customers| 0.
08| ---| ---| ---| ---| System breakdowns could affect the trading activities of
the company | 0. 03| ---| ---| ---| ---| Inability to control the auction items
and checking is done after auction has been posted| 0. 05| ---| ---| ---| ---|
Increased shipping costs which overall raises the product cost to consumers|
0. 10| ---| ---| ---| ---| Consumers fleeing to retail stores for a better bargain|
0. 0| ---| ---| ---| ---| Sellers being able to enforce the payment method of
their choice giving rise to email scammers| 0.
10| ---| ---| ---| ---| SUBTOTAL| 1. 00| | 1. 58| | 1. 70| | | | | | | | | | Critical
Success Factors| Weight| Chinese Market Expansion| Collaboration with a
social networking site| Opportunities| | AS| TAS| AS| TAS| Acquisition of a
web enabled voice over| 0. 15| 4. 00| 0.

60| 4. 00| 0. 60| Introduction of Paypal| 0. 10| 4. 00| 0.

40| 4. 00| 0. 40| Market Development (eg aspirating consumers in China and India)| 0. 20| 4. 00| 0. 80| 3.

00| 0. 60| Undiscovered clientele in USA | 0. 05| 4. 00| 0. 20| 4.

00| 0. 0| Online auction boom| 0. 10| 4. 00| 0. 40| 4. 00| 0. 40| Threats| | | |

| | International competitors | 0. 10| 4. 00| 0. 40| 3. 00| 0. 30| Company has to cope with fraudulent activities| 0. 15| 3. 00| 0. 45| 3. 00| 0. 45|

Uncontrollable costs | 0. 05| 3. 00| 0. 15| 2. 00| 0. 10| Consumer reluctance to shop online due to security issues| 0. 10| 3. 00| 0. 30| 2. 00| 0. 20|

SUBTOTAL| 1. 00| | 3. 70| | 3. 25| SUM TOTAL ATTRACTIVENESS SCORE| | |

5. 28| | 4. 95| STRATEGIC RECOMMENDATIONS AND IMPLEMENTATION

Strategy 1: Chinese Market Expansion Weakness: Weak expansion results in China. Recommendation: Boost efforts to become a key player in the Chinese market. Why would this expansion be good for eBay? In Japan, Ebay lost a very important market (the second largest online market in the world) when eBay was aced out by a joint venture between Yahoo and Softbank. Yahoo only entered that market five months head of Ebay, and they took control of that market and never gave it up. Thanks to that move, Yahoo now sees more than \$5 billion in transactions a year in Japan. EBay eventually gave up that market entirely in 2002. So an expansion into the Chinese market would be crucial for any furthers success stories for eBay, and eBay doesn't want to make the same mistake they made in Japan, by losing this huge lucrative market to its competitors. Besides, it is estimated that China will overtake America with the largest number of Web surfers as early as

2010. So, overlooking and not taking this market seriously would be a huge mistake for eBay

Problems One of the challenges eBay face in China is that's country's difficulty to adapt readily to the PayPal system eBay's uses. In much parts of China, for example, such electronic payment systems remain a mystery, and many eBay deals are sealed only with face to face cash payments. For instance, China Union pay holds credit card monopoly in China, which makes it hard for PayPal to expand its services in China. Other concerns facing eBay in China is that people feel insecure with making payments online.

Solutions

Hire a country manager: Hiring a country manager will rehabilitate trust in people and would help them in trusting eBay and its transactions and someone who understands the Chinese culture would further on facilitate the process for eBay

Conduct research: eBay needs to put more effort into researching that market. It needs to conduct more market researches and find out what the needs of those customers are. This can be done through surveys, interviews and tests. This will give EBay valuable information on what is lacking and what it needs to do. Once its results of that information is clear it needs to implement those strategy in areas they are weak. Change agent programs that are working should be kept and those which are not should be abandoned.

Increase advertisement: After all the plans above have been implemented, eBay should increase its efforts to advertise its services to its customers. Letting people know the benefits of shopping on eBay and eliminating its customer's doubts and insecurity of shopping online. Good and beneficial services along with strong marketing are well know ingredients in any corporate success. Further strengthen the partnership with China Pay: The fact that many people in China do not have Visa, MasterCard or other western payment systems is a

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huge hinder for any future success in China. By further strengthening its partnerships with China Pay, eBay can make payment from its customers easier, which in the long run leads to a broader market share. Strategy 2: Collaboration with a Social Networking Site

What is Social Networking? Social networking is the grouping of individuals into specific groups, like small rural communities or a neighborhood subdivision, if you will. Although social networking is possible in person, especially in the workplace, universities, and high schools, it is most popular online. When it comes to online social networking, websites are commonly used. These websites are known as social sites. Social networking websites function like an online community of internet users. Depending on the website in question, many of these online community members share common interests in hobbies, religion, or politics. Once you are granted access to a social networking website you can begin to socialize. This socialization may include reading the profile pages of other members and possibly even contacting them. This is what we would like to recommend to eBay. They should partner/collaborate with a social networking website. How would this work? The famous social networking website operating at that time was Orkut and today Facebook, Youtube, Twitter and MySpace. What eBay can do is that on one person's Orkut page, there should be an eBay tab. That tab would display that member's current listings, in-process transactions and other eBay features. This way eBay can also attract the non-eBay users to be updated with eBay so that in times of need they would look up to eBay as their solution. Benefits * Also on the social networking websites people are members of many of their preferred companies, for e. g. IBM on Facebook. So members of Facebook can check the auctioned items of IBM at IBM's Facebook page only. * People can only hose

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to trade on eBay with people they know on Facebook so that the fear of a fraud is eliminated. * This will also increase buzz marketing for eBay as everyone who Twitters or facebooks will speak about eBay as well. Huge Exposure: Marketing your business online through social networking websites gives you a huge number of prospective clients or customers. YouTube alone has 3.75 million user channels and growing. These are all prospective clients. * More Pointed Exposure: When you use a blog to provide information on your product or service, you'll boost the number of people that come to your website specifically for your product or service. They've come online to look for a specific product or service, which you are delivering. You aren't marketing to people who may not need your service. * Inexpensive: Networking online is less expensive than any other type of advertising or marketing. Consider it the online version of word-of-mouth advertising. You could spend millions launching a product through commercials and advertising, or you could spend a few dollars to get a blog going, to register at a few social websites and to interact. * Find Partners: Networking is not always about getting the customer; social networking online can help you get the partners you need as well. Put up a MySpace page and talk about the new product idea you have. Sell your idea to the 100+ million users on MySpace and find a partner to finance it. * Gauge the Waters: Networking in business is a fantastic way to find out what others think before you invest time and money on promotions that are not profitable. For example, use your Facebook profile to gauge the interest in your local area in a new club concept you have. CURRENT SCENERIO In 2009, eBay Inc. became a stronger, more focused company. They managed to reach their three-year growth and operating targets in March 2009, setting

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bold goals to remain a global payments and e-commerce leader. During the year, they experienced significant growth in the payments business, which is wellpositioned for success in the years to come. It strengthened its Marketplaces business by fixing fundamental issues that it believed were holding them back. And they sold a majority of Skype (70%), allowing them to focus on two core growth engines: payments and e-commerce. They did all of this while keeping a healthy operational and financial position of their business. Their financial performance for the full year reflects these efforts. Despite the challenging environment in 2009, particularly in the first half of the year, they delivered \$8. billion in revenues, a 2 percent increase from the previous year, and \$1. 83 of diluted EPS (which was 1. 96 as on 10/12/2010). Although their operating margin of 17 percent was lower compared to 2008, they delivered \$2. 9 billion in operating cash flow for the year. They connected more buyers and sellers than ever before through their core payments and e-commerce businesses in 2009. PayPal had an exceptional 2009, ending the year with net total payment volume (TPV) of \$71 billion – a 19 percent increase over 2008 – and 81 million active registered accounts globally. Their Marketplaces business, led by eBay, grew its customer base to 90 million active users worldwide. Their Marketplaces portfolio got stronger overall in 2009: Acquiring Gmarket, Korea’s leading online marketplace, gave them a leadership position in a key e-commerce market in Asia. Skype got great partners to help the company realize its full potential and eBay Inc. was aware of the importance and future profitability of the ongoing minority stake. (30%) By the end of 2009, PayPal supported 24 currencies in 190 markets – a truly global business. PayPal continues to leverage this competitive advantage by making it easier to send and receive

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payments across borders. In fact, cross-border trade now accounts for almost 25 percent of PayPal's net TPV. Consumers are more likely to complete a transaction when PayPal is used, hence showing their confidence in the payment system. PayPal Student Accounts was significant in helping to eliminate the hassle of everyday money exchanges between parents and teens. In 2009, PayPal became the first major payments platform to open up to third-party developers – a move that eBay believe will accelerate the adoption of PayPal and innovation in payments overall. Simply put, they are on their way to making PayPal the preferred online payments provider around the world. In 2010 they planned to ease up consumer misunderstandings about PayPal so that it can be used more on eBay. eBay continues to be one of the most popular shopping destinations on Earth, and they made great improvements in 2009 to ensure the significance of this business for buyers and sellers everywhere. They focused on improving the fundamentals – trust, value and selection . But more importantly, their progress is evident across key success metrics: Net Promoter Scores, a measure for customer loyalty, were up significantly in their major markets (U. S. , U. K. and Germany) and sold items growth accelerated in the last three quarters of 2009. There was significant improvement in the area of trust, as they continued to raise the bar on customer experience across the eBay marketplace. In 2009, eBay introduced Top-Rated Seller status as a way for buyers to easily identify those sellers who consistently receive high customer satisfaction ratings and meet certain other criteria, a new type of feature. Bottom line, Sellers who deliver the very best service experience are succeeding on eBay, and buyers are benefiting. Increasingly moving new types of merchandise at rapid growth, particularly through Daily Deals offers

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and Fashion Vault pilots. In 2010, eBay's intent is to make eBay the best place to sell online and a preferred shopping destination for buyers, especially in the most important retail product categories. StubHub is one of the sites controlled by eBay for selling of tickets. StubHub had another fantastic year, particularly in 4th quarter, with revenues up 54 percent over the same period in 2008. High-profile concerts and sporting events drove ticket demand on the site, leading to increased market share. They accelerated innovation across eBay Inc. to connect buyers and sellers in new ways. In addition to PayPal opening its platform to third-party developers, the efforts in mobile commerce have put them in a strong leadership position in this ever changing business. As one example of their progress progress, the eBay mobile app for iPhone had been downloaded almost seven million times as of January 2010, making it one of the top apps in the iTunes store at the time. Beyond downloading the app, consumers are shopping more and more via their mobile phones: In 2009, more than \$600 million worth of sales were transacted through their mobile applications. They intend to continue to innovate in mobile commerce in 2010 and provide consumers other convenient ways to buy, sell and find the best deals on eBay with their smart phones and other devices. Within the organization, there was focus on implementing smarter, more disciplined ways of operating. This approach is designed to help meet the goal of reducing cost structure by a cumulative \$2 billion over a three-year period – a commitment made at Analyst Day in March of 2009. They remain on track to achieve this goal, and have reinvested savings into customer experience, trust, marketing and technology. In addition, they generated strong operating cash flow of \$2. 9 billion during 2009 and ended the year with \$5. billion in cash, cash

equivalents and non-equity investments. Although they are proud of the progress made in 2009, they can do more in 2010, on their 15th Anniversary year. The company was founded on the premise that individual actions, taken collectively, can have lasting impact. eBay enables a buyer to access deals on a wide selection of goods on the Web . It provides the platform and tools for anyone to easily start or grow a business online. They enable anyone to pay or get paid almost anywhere in the world – without paper. As a global e-commerce company, their mission is to connect buyers and sellers which they consider both an opportunity and a duty. They intend to drive awareness and membership for the eBay Green Team, which launched publicly in 2009 and is helping the company and millions of consumers make smarter, greener choices. They intend to operate in more efficient ways, delivering commitment to energy efficiency and exploring innovative renewable energy technologies. (<http://www.annualreports.com/HostedData/AnnualReports/PDFArchive/ebay2009.pdf>)

EBAY FINANCIAL ANALYSIS (CURRENT FIGURES) Financial data is in US dollars KEY RATIOS| EBAY | INDUSTRY| Net profit margin| 28. 75%| -| ROA| 13. 9| -12. 5| ROE| 18. 69| 19. 6| ROC| 17. 4| 15. 9| Leverage free cash flow| 1. 3| 2| Total asset turnover| 0. 5| 1. 9| Current ratioQuick ratioTotal liab/T. AssetsDebt/equity Dividend pay outEarnings per shareP/E Ratio| 2. 52. 224. 0NA1. 9614. 2| 1. 9

—| The long-term potential of eBay’s business, in terms of its robust and stable revenue base, opportunities for leverage and ability to generate free cash flows, is quite remarkable. The firm’s liquidity ratios are well above the industry average today, which means that meeting short-term obligations is not a problem ebay has to worry about. The four most important profitability ratio’s ROA, ROE Net profit margin and Gross margin all show above average <https://assignbuster.com/ebay-case-analysis/>

results. A profit margin of 28.75% indicates healthy operational efficiency and in comparison with the industry its ROA and ROE ratios also indicate that ebay is better off. -year ratio average clearly indicates how ebay has sustained its growth over the years. The financial statements show that eBay has continued to grow in net income as well as total assets, demonstrating its overall success and growth of as a company. The growing increase in liabilities is mainly in part of investments to continuing growth and advancing technology. By looking at eBay's financial statements, and comparing them to its industry, it can be concluded that eBay has been continuing to grow in all aspects of its company, advancing its competitive advantage, and increasing its overall profits. After calculating and analyzing the ratios it is possible to make many more conclusions about eBay's financial situation. Bay has a very high current ratio, demonstrating that it has more than enough short-term assets to cover its immediate liabilities, but it also shows that eBay might not be investing enough of its excess assets. The debt-to-equity ratio is 0 showing that financing is all equity based making it fall as non debt leveraged firm, but it is also exposing itself to a large amount of equity. The increasing ROE is another example of how eBay is continuing to grow, because a higher ROE is expected in high growth companies. And finally the gross profit margin proves that eBay is generating a very large percent of net income from each dollar of sales. This ability to earn a high profit per dollar of sales is because of its very low cost to generate income, and this ontributes greatly to the growing of eBay's overall financial strength. The cash flow-to-assets ratio over the past three years portrays that eBay is growing in cash flows and is less likely to run into problems generating cash in the future. 5-Year Averages | Return on Equity | <https://assignbuster.com/ebay-case-analysis/>

11. 7% | | Return on Assets | 9. 0% | | | | Return on Invested Capital | 11. 7% |
| | | | Gross Profit Margin | 81. 7% | | | | Pre-Tax Profit Margin | 25. 1% | | | |
Post-Tax Profit Margin | 19. 0% | | | | Net Profit Margin (Total Operations) | 19.
0% | | | | R; amp; D as a % of Sales | 8. 4% | | | | SG; amp; A as a % of Sales
| 40. 7% | | | | Debt/Equity Ratio | 0. 00 | | | | Total Debt/Equity Ratio | 0. 02 |
| | | |