

Ebay analysis

Business



Case Analysis: EbayInc. Introduction EBay Inc.

, situated in San Jose, California, was founded by Pierre Omidyar in September 1995 as a marketplace for the sale of goods and services powered by a person-to-person on-line trading community. Sellers listed items for sale, and buyers bid on items of interested which was automated using EBay's listing system to arrange items by category and topic. Focused market segment was the collectibles and developed based on a traditional auction house.

Since the foundation through February 1999, more than 186 million bids had been made on the over 50 million tems for sale, resulting in more that \$841 million of gross commodities sold with a seven-day average of approximately 800, 000 bids per day. Key strategic issues include the need to reach international markets, the need to create an environment that encourage large corporations to buy and sell, and the opportunity to explore possibilities for further vertical integration. This in mind, eBay needs to evaluate its strategies to ensure it can hold a dominant presence as a global online auction firm.

These strategic issues can be translated into recommendations for eBay. But it is not he only player to play such a major role in the online auction arena. Amazonworld's largest online marketplace with the vision of earth's biggest marketplace is the biggest competitor for the EBay Inc. enabling the online community to an extraordinary buy and sell adventure.

EBay should always need to focus and be aware of its rivalry in the long run of the sustainable growth of the company and to explore new geographies and dimensions.

The report will critically analyze the dominant economic and business characteristics of online auction industry, characteristics of EBay's main competitor behavior. Furthermore, it will look into Porter's five forces model, key success factors of the company and financial stability of the company with its financial ratios from year 1995 to 2000 hence leads to the key findings and the recommendation for the EBay Inc. in maintaining sustainable growth in the online business.

Analysis EBay's business model was based on creating maintaining a person-to-person trading community where buyers and sellers could readily and conveniently exchange information and goods.

EBay's role was to function as a value added facilitator of online buyer-seller transactions by providing a structure that enabled buyers and sellers to come together in an effective and efficient manner. Success depends not only on the quality of the EBay's infrastructure but also quality and quantity of the buyers and sellers attracted to the site.

In management's view, this safety programs, a cost effective and convenient trading experience, and strong community affinity. By developing the EBay brand name and increasing the customer base, EBay endeavored to attract a sufficient number of high quality buyers and sellers necessary to meet the organization's goal. The online auction format meant that EBay carried zero

inventories and could operate marketplace without the need for a traditional sales force.

Analysis of Current Strategy and Business Model (see exhibit 1) Corporate-level Strategy: Single Business Business-level Strategy: Broad Differentiation based on product variety Business Model: 1) Critical mass of buyers, sellers, and items, 2) Entertaining trading environment, 3) Established trust and safety programs, 4) A cost-effective convenient trading system, 5) A strong sense of “community”, and 6) A user interface that is easy to navigate Five Forces Model (see exhibit 2)

Rivalry (High) Rapid industry growth (-), Recent entry of new competitors (especially fixed price/ online retailers) (+), Users have low switching costs (+), eBay’s dominant market share (+) only minimal product differentiation (+) New Entrants (Moderate) Relatively few entry barriers, except for marketing/brand image (+), Low capital requirements to enter the industry (+), The industry has high profit levels (+), eBay’s dominance/brand image discourages many new firms (-) Substitutes (Moderate) Potential substitutes: garage sales, flea markets, auction houses, other retailers

Substitutes are not as convenient as online auctions (-), Substitutes typically do not have as much product variety (-), Switching costs to substitutes are low (+), May be able to purchase products quicker from physical retailer (+) Suppliers (Low for sellers but moderate for web hosting services and power sellers) Sellers only have power as groups; as individuals they have little power Web hosting services are fairly readily available but still are an

important component of developing a low cost-structure (strengthens power)

Buyers (Weak for individuals, moderate for power buyers)

Individuals buy in small quantities (-), Individuals have little leverage and negotiation power against large companies (-), Groups make up a larger percentage of companies' sales (+), Switching costs for buyers are relatively low (+) Driving Forces Advances in Internet technology, such as site reliability and the security of credit card transactions Recent entry of online retailers as a competitor The long-term potential for global competition in the industry Increasing specialization of auctions (autos, etc.) Key Success Factors Stickiness Brand image/reputation (marketing becoming more important)

Appealing web site and functionality Variety of items auctioned Competitive fees Skills in creating a pleasant and entertaining trading environment and "community" atmosphere SWOT Strengths Weaknesses Best image/reputation in the industry, Broad product variety, Strong management team, Excellent financial condition, Broad strategic alliance portfolio, Loyal customer base, Functional web site that is fairly easy to navigate, Strong sense of community among eBay users Regional sites/specialty auctions Company's strategy may be too broad, eBay is not currently pleasing many small sellers, The company's first mover advantage may fade, eBay has had minor difficulties in some foreign markets, Customer service only average, Now competing with online retailers (who may be more SafeHarbor program/feedback forum experienced than eBay) Opportunities Threats Expansion into international markets , Expansion of big-ticket items (i. e. , real estate, autos, etc.), Expansion of niche auctions (i.

<https://assignbuster.com/ebay-analysis/>

e. local auctions), Expansion into fixed-price auction format, Rising Internet usage/demand world wide Internet fraud, The entrance of new competitors (online retailers), Well established competitors exist in some foreign markets, Potential market saturation domestically, Small sellers dissatisfied w/ companies' pandering to large sellers Financial Consideration The exhibit 4 shows the financial stability of the EBay Inc. since 1995 to 2000. Current ratio has been increased from 0.84 to 262.

22 from 1996 in 3 years which indicates that the working capital has been 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 show for the quick ratio as well because zero inventory is being followed.

Average collection period with 0 days is quite normal in the online auction business as every transaction happens real-time. Fixed asset turnover 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 the classification of long-term been reduce from 1.24 in 1996 to 0.00 in 1998. Similar figures can be seen for the Debt-to-equity ratio as well.

Times interest earned starting at 253.0 in 1996 and decreasing it to 4.34 in 1999 indicates how well the firm's earnings can cover the interest payments on its debt. It is clear enough that the value decrease need special attention on increasing the earnings.

<https://assignbuster.com/ebay-analysis/>

Profitability ratios such as gross profit margin, operating profit margin etc offer several different measures of the success of the firm at generating profits. Having a gross profit margin of 96.

24% in 1996 and decreasing it to 81. 89% in 1999 indicates that the industry existence is not as healthy as it promised to be in 1996. With the entrants of other online auction players into the arena EBay need to stay focus on maintaining its profit margins. Return on Assets is a measure of how effectively company assets are being used to generate profits. Starting at 47. 40% in 1996 and decreasing to 0.

04% in 1999 shows a clear sign that the 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 shareholders, measuring the profits earned for each dollar invested in the firm's stock. Starting at 133. 94% in 1996 and increased to 501. 32% in 1997 and reducing to 264.

0% in 1998 indicates that the share market price may vary so fast due to investors' change in behavior. Earnings per share are generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio. EBay Inc. starts with a value of \$0. 29 in 1996 and increasing to \$1.

2 in 1997 and decreasing to \$1. 32 in 1998. It further indicates that the company can always change its state in an ever changing economic

environment. Conclusion and Recommendations Based on the above analysis it is observed that although the online auction business unning on zero inventories has still effects due to the competition. As for the seven big myths of internet by Amazon founder, CEO Jeff Bezos, the internet changes everything, there are going to be only a few winners in the internet economy, current market leaders can't fail etc.

makes real sense for not only Amazon but for the players like us it is always need the focus on external environment.

How the competitors behavior changes, what should be the things to take into consideration on keeping EBay customers attracted. Based on the above analysis and conclusion the following strategies are ecommended to keep up the EBay as world's no 1 online auction firms. 1 . Growing the eBay community and strengthening our brand, both to attract new members and to maintain the vitality of the eBay community.

2. Broadening the company's trading platform to by growing existing product categories, promoting new product categories, and offering services for specific regions. 3. Fostering eBay community affinity and improving community trust and safety through services such as user verification and insurance. 4.

Enhancing website features and functionality through the introduction of personalization features such as about me, which pportunity for sellers showcase their items as pictures in a photo catalog. 5. Expanding pre-and post-trade value-added services, such as assistant with scanning and uploading photographs of listed items, third party escrow services, and <https://assignbuster.com/ebay-analysis/>

arrangements to make shipping of purchased items easier. 6. Developing international marketplace by actively marketing and promoting our website in selected countries. 7.

Focus on the items like digital equipments and gadgets as they are trends in younger generation which may lead to expand the brand image as a result of word of mouth marketing. 8.

Improve the payment methods such as PayPal 9. Strategic alliance with social networking giants such as Facebook, Twitter, Myspace etc to promote the brand value.

10. As per the gross merchandise sales graph given on the case study there are significant improvement during the 4th quarter of each year which starts from December. This may be due to the Christmas season. High number of buyers trying to buy something for their kids and family for a cheaper rate directs that EBay should create special programs in those festive seasons.

Appendices Exhibit 1 Five generic competitive strategies Exhibit 2 Five forces analysis Exhibit 3 Strategic Group Map Exhibit 4 Financial consideration