

Ebay: analyze ebay's innovative business model and key success factors



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From Beanie Babies to automobiles to fine antiques, eBay is by far the most popular one stop shop on the Internet.

eBay is an online auctioneer where buyers and sellers can buy or sell almost anything. The online service offered by eBay allows sellers to list items for sale, while buyers will bid on items of interest. Anyone who is interested can browse through the list of items in a fully automated, categorically arranged service that is available 24 hours a day. eBay, which generates revenue through listing and selling fees and through advertising, boasts some 95 million registered users. Since its incorporation in May 1996 in California and was reincorporated in Delaware in 1998, the online auctioneer is offering new services and expanding into new territory (China, India, South Korea, Spain, Switzerland, and Taiwan) with continual success. Not to be outdone by eBay, a number of new entrants had entered the online auctioning market - notably uBid, Bidz, and Yahoo! Auction.

But none of which has experienced the dramatic level of success that's seen with eBay. In order to better understand how eBay has become the online auctioneering giant that it is today, we will analyze eBay's innovative business model, as well as some of the key success factors of the company. eBay's business model is still person-to-person selling through its automated trading platform, which accounts for the largest percentage of its revenue (Rouse, 2002). The consumer base has expanded from individual consumers to small to medium-size businesses, global corporations, and government agencies.

Anyone can browse through the auction site but only registered users can bid or sell items. Listings usually expire after 3, 5, 7, or 10 days, depending on the seller. While no transaction fees are required for buyers, sellers pay a small “ listing” fee to list an item. Also, sellers are responsible for the final value fee, where eBay charges a certain percent of the final selling price.

The company also generates additional revenue by offering sellers opportunities to enhance their listings through features such as Featured Plus!, Highlight, Bold, and Buy It Now option. eBay will automatically notify buyers and sellers the latest status of biddings via email. Since the company does not take possession of selling items during the bidding process, eBay has no legal power to enforce the transaction between buyers and sellers. To increase consumer confidence in this area, the online auctioneer has implemented three programs to ensure the quality of the buying and selling experience – My eBay, Feedback Forum, and SafeHarbor. My eBay provides account information of the registered user, including recent activities, account balances and feedbacks from other users.

The Feedback Forum offers registered users ways to submit comments about their bidding experiences with a particular buyer/seller. This feature is linked directly to the user profile of a specific buyer/seller so potential shoppers can better anticipate any questionable transaction that may occur. The SafeHarbor program is designed to investigate complaints from registered users for possible fraud. It has the authority to issue warnings or even suspension of an account user from conducting transactions on the website. eBay's key success factors include providing a variety of services, including offline auctions and electronic payment options.

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Supported by traditional auctioneers like Butterfields Auctioneers Corporation and Kruse International, eBay's offline auctions account for 5% of their revenues in 2001. By strategically aligning itself with well-established traditional auctioneers like Butterfields Auctioneers Corporation and Kruse International, eBay is able to enjoy brand association and recognition as well as further strengthening the company's creditability. Prior to 2002, eBay had also attempted to build its own e-payment service called Billpoint. This in house program was designed to offer registered users ways to make payments electronically.

But PayPal's earlier entry into the market as well as superior technology created entry barriers to the online auctioneer. So in mid 2002, eBay acquired PayPal, Inc. This strategic move has proven to be successful. Since an upward of 70% of the electronic payments that occurred on eBay are processed through PayPal, eBay can collect payment fees on top of the 7%-8% of total merchandise sales it currently collects from sellers. In effort to continue its steady growth in revenue, eBay cultivates corporate retailers like IBM, Xerox, Dell, and Home Depot by featuring their retail goods at eBay's virtual stores.

This offers unique opportunities for retailers because they can, on average, recuperate \$. 45 on every dollar for excess inventory (Rouse, 2002).

Compare to \$. 15-\$. 20 they get from traditional liquidators, this is obviously a more profitable approach.

eBay continues to thrive and expand its presence on the Internet year after year. Through the company's marketing strategies, eBay has been

successful in attracting individual buyers and sellers as well as larger businesses. This has contributed to the shift of power between buyers and sellers that will change the dynamics of retailing industry forever.