

The new economy

Economics



Through the early 1990's, much material came out of the United States which talked of The New Economy. Forecast for an imminent entry, the promise of the forthcoming paradigm change was based on breakthroughs in InformationTechnology. In it lay the power to harness the new and often perplexing trends which were being sensed rather than seen. Entrepreneurs and managers were advised to prepare for tectonic shifts in consumer behavior and be ready to adapt to the change inenvironment- or perish.

For those who did anticipate well and change, huge profits were to be unleashed. The premise was as stupendous as it was simple - the world was reduced to a borderless entity where goods and services would move to a point of demand without the traditional impediments of international geographic barriers. (Manning, 225) Everyone talked about the Internet and it made its ubiquitous presence felt worldwide in business and in personal lives. It was quite clear that anyone who had the talent and imagination could make a fortune out of E commerce and its limitless possibilities.

Those early days did see the rise of a handful of entrepreneurs who explored the frontiers of this new opportunity and were to become instant billionaires. (Kumar, 378) In these exciting times, someone named Pierre Omediyar, prepared to help his fiancée trade candy dispensers. In doing so, he founded e - Bay, possibly the largest online auction company in the world. The story, of course goes beyond this mundane fact, and talks about how Omediyar, now eBay's Chairman, thought about a retail equivalent of NASDAQ, straddling the mind space of buyers and sellers of goods worldwide through the power of the Internet.

Founded in 1995 in San Jose, California, eBay, inspired by its founder's vision was also directed by Meg Whitman, CEO. E Bay went public in 1998 making Omediyar a billionaire at the same time. In 2002, quarterly revenues reported by the company were almost \$414 million and by 2007 had touched close to \$ 8 billion. The company now has over 11000 employees and serves over a dozen countries. Famously identified by its slogan, ' Whatever it is you can get it on eBay', the organization today deals with shopping malls, electronic commerce, online auction hosting among a host of others.

One of its staple features, ' Collectibles', illustrates the entrepreneurial drive of the company and its stakeholders. The very first item sold on e Bay was a broken laser printer. When asked by Omediyar if he knew of this fact, the bidder declared that he was a ' collector' of broken laser printers. The world according to e Bay is full of such curious collectors, who meet and transact with sellers on its portal. (Kumar, 379) This is because of the imagination at the company's disposal which perceives trends and converts these facts into sales figures.

E Bay offers different types of auction platforms: Listings - buyers and sellers can offer several items for sale for a specified number of days. The seller can fix a reserve price. Fixed price format allows the seller to offer one or more items under a Buy it now price option. Bidders who agree to this price win the auction. Under the Dutch auction platform, buyers can get to see identical items and bid for any number of one items within the limit of the number offered. The company's current strategy, revenue from sales abroad, sees it transacting across a fair breadth of the world, including in India and China.

E Bay has well over 35 million customers worldwide including in the USA. (Manning, 243) So, what drives the company? The business model which has proved so hugely successful for the organization, involves no inventory. The company mints money from the fact that bargain hunters are not impeded by ups and downs in the economy. They will continue to visit the auction site in droves. The aforementioned power of the Internet is evident here. The community of buyers and sellers represents an 'international democracy' that has access to literally thousands of opportunities to bid and win products from all over the world sitting in one's living room.

This is the real key to the success of e Bay; the ability to harness the incredible communicative tool that is the Internet. The portal uses the Net to literally track every movement of buyers and sellers so that its offerings can be tailored to what customers want. The addition of cars to its product offerings was aided by this ability. Noticing an upswing in the movement of certain items including cars - e Bay realized fortune was waiting in the wings. E Bay is now one of America's car dealers - the revenue from car and car parts was well over \$ 1 billion in just 2001.

(Kumar, 380) Another key component of e Bay is its customers. They are its sales and product development team, merchandizing and marketing managers all rolled into one. It is only because of them that e Bay is now a global marketplace for products ranging from a \$1 greetings card to a private jet worth millions of dollars. E Bay's customers spread the word among themselves. E bay's discussion boards receive thousands of messages every week sharing tips on success in bidding, arguing for

changes and pointing out where some tweaking or major overhaul was necessary in operations.

They are the global auctioneer's eyes and ears enabling it to instantly change direction in response. A bricks and mortar retail set up would be hard put to replicate this through its own customers. The prospect would simply be mind boggling. Literally every one of thousands of customers would have to be met and asked questions. Forms would have to be filled, information would need to be sifted and finally necessary changes might be implemented - all taking up considerable shop time and irrelevant as new demands would overtake the pace of implementation. E bay's customers do all this every day.

So, in a sense, executive in e Bay would be acting on the brains and imagination of millions of customers. This would be utilizing the economies of scale, from a different perspective - human talent. True to Omediyar's vision for his online auction company, customers shape the development of the company rather than irrelevant managerial control structure. (Manning, 240) By simply staying in touch with its customer base, e Bay can literally reinvent itself every day in a brilliant repositioning of the traditional limitations of a marketplace in the real world.

The pundits had this in mind when they talked of the paradigm shifts leading to the New Economy. E Bay remains constantly in touch with customer needs and makes necessary alterations with speed. Its professed goal of ' global economic democracy' allows for firm focus on the customer even while growing at breakneck speed. The corporate pointers for other organizations is that to develop a brand is more about understanding your customer well

rather than attractive 'eyeball capture' advertising campaigns running into millions of dollars but chancy in their impact on consumers.

Consumer psychology is not easy to manipulate and emotional coercion will simply not work today with the cascading effects of the Internet. (Powell, 86) This is why the general gloom which set over business, post the 9/11, attacks, did not affect the company or its prospects. It did bleed \$5 million in revenues due mainly to the prevailing uncertainty post the terror attacks. It however, crossed third quarter budgets by almost 3 per cent with sales posted at \$195 million earning the company and its top brass \$ 18 million in profits, which was 15 % higher than informed opinion predicted.

E bay's customers backed the company whole heartedly and sales in the last quarter of the same year were projected at \$ 200 million in excess of the forecast - such was the confidence vested in the company. (Powell, 92) The unique value proposition of the company enables it to adapt to constantly shifting trends. This made giant corporations take notice. Customers had control over what they would buy and at what price. Everything from overstocked PC's to bed sheets was sold on the site. This made everyone from IBM to Disney sack mounting inventory on to the site.

It can be safely said that even in a depressed economy, e Bay bucked the trend for itself and for the market as a whole, which also included bricks and mortar set ups. This was due to the enterprise of its customers who transformed strategies in line with economic trends. In conclusion it should be stated that as e bay prepares to propel into the future, its incredible growth is its challenger. In 2002, for example, e Bay's \$60 stock price

represented a price / earnings ratio a good deal more than Microsoft's ratio of 31.

This was entirely due to e bay's approximately 40 million customers. (Powell, 97)The slightest shift in customer confidence would send its stock crashing wiping off millions of dollars in value. That the company still straddles e commerce is largely due to the determination of Omediyar. In the days of Auction Web (what e Bay was known as before), its founder had decided the company's future was its customers' future. The power of the market was given to the individual and not big business corporations.

Its customers, therefore, were responsible for the future growth of the web site. To assert the crucial difference its customers make, CEO Whitman herself auctions on the Net and advises her executives to do the same to get a first hand experience of trading. Customer complaints move strategy as the customer is heard across the board, Voice of the People, an e bay sponsored initiative, makes customers interact with the company to get a feel of trends or possible new directions pushed along by customer feedback.

Possibly the biggest impact customer feedback has made is on the sense of ownership bred by in them. Customers can actually rate a sale, (now scaled down to providing only positive feedback) and keep an eye on movement. (Powell, 101-2) Works Cited: Kumar, H; Justice of Winners: Win Some, Lose None (Auckland: HBT & Brooks Ltd. 2007) Manning, C S; Principals and Practices of the Virtual Industry: E-Commerce Case Studies (Christchurch: National Book Trust. 2006) Powell, M; Anatomy of Modern Crusade: E-Commerce (Wellington: ABP Ltd 2007)