

## **Case-1**

### **eBay**

#### **Overview**

This rendition of the eBay case has been substantially revised and updated from the 12th edition and includes new data and strategic issues that eBay's management must address as the company strives to maintain its industry dominance, continue its dramatic revenue growth, and justify its lofty stock price.

When people thought about online auctions during the late-1990s and early-2000s, the first name that popped into their heads was eBay. Going into 2002, eBay had created the world's largest Web-based community of consumer-to-consumer auctions using an entertaining format that allowed people to buy and sell collectibles, automobiles, jewelry, high-end and premium art items, antiques, coins and stamps, dolls and figures, pottery and glass, sports memorabilia, toys, consumer electronics products, and a host of other practical and miscellaneous items. The company had also become a business-to-business and business-to-consumer clearinghouse for Fortune 500 companies and large governmental agencies seeking to liquidate inventories and or other assets as eBay's core buyers changed from collectors to bargain hunters. eBay's business model had further evolved to include fixed price transactions offered at its Half.com site and eBay stores and big-ticket auctions including automobile, real estate, and boat sales. At year-end 2001, eBay held more than 2.1 million auctions per day and had over 29.7 million registered users. The company's revenues had grown from \$32 million in 1996 to over \$431 billion in 2000—recording an impressive 91% annual growth rate. In addition, with 2000 profits of \$48.3 million, eBay was among the Internet's elite in terms of financial performance.

Despite eBay's notable success, in 2001 the company faced a myriad of emerging challenges, including the perception of smaller sellers that the company had "sold out" to large corporations, the recent success of new rival online auction sites, and the full integration of Half.com with eBay's auction site. Additional concerns included how to aggressively push international expansion, increase fixed price transactions, and enter new product categories while maintaining eBay's sense of community. In considering these issues, eBay's chief managers faced two

fundamental challenges: (1) Could eBay retain its traditional values given its rapid growth and the evolution of its user bases, and (2) How far could the company expand before its core business model began to blur or its product line expansion brought it into direct competition with larger rivals?

## **Suggestions for Using the Case**

You can use the eBay case to serve any of several pedagogical purposes:

- To drill students in using and applying the concepts and tools of industry and competitive analysis.
- To give students practice in doing SWOT analysis and competitive strength analysis.
- To probe and assess a company's financial condition.
- To illustrate the problems and challenges of fast-growing companies in high-velocity markets.
- To illustrate the strategy-making challenge of a pioneering dot-com company who, by virtue of innovation and first-mover advantages, has won a dominant market share and now must figure out how to defend its market leadership against aggressive rivals.
- To illustrate the evolution of strategy as industry conditions change, the make-up of rivalry transforms, and as new opportunities arise.
- To have students gain an understanding of the challenge of sustaining historical growth rates for successful entrepreneurial start-ups.
- To help students learn to translate good analysis into good recommendations for action.

Because the issues and topics in the eBay cut broadly across the business strategy landscape and embrace material in Chapters 3, 4, 5, 7, and 8, we recommend positioning the eBay in the latter third of your business strategy module.

There's a case preparation exercise for eBay on the Case-TUTOR software that we believe will enhance the caliber of student readiness for class discussion of the case. It incorporates most of the assignment questions below.

There's also an accompanying 13-minute video on eBay that aired on PBS's NewsHour with Jim Lehrer on September 25, 2000. The video, which examines eBay's history and selected issues

confronting the company in late-2000, is best shown at the beginning of the class period and is part of the Instructor's Package for the 13th Edition. You can also access the PBS profile of eBay at [http://www.pbs.org/newshour/bb/economy/july-dec00/eBay\\_9-25.html#](http://www.pbs.org/newshour/bb/economy/july-dec00/eBay_9-25.html#).

We have used the case for a written assignment (as an exam over the material in Chapters 1-8) and we recommend it for oral team presentations as well. A good assignment question is the following:

Having heard of your growing prowess in matters of strategic analysis, Pierre Omidyar and Margaret Whitman have retained your services to help them assess eBay's situation and make recommendations for improving the company's strategy and sustaining the company's growth and business performance. Specifically, you have been asked to provide Mr. Omidyar and Ms. Whitman with a 4-6 page (double-spaced) report, along with whatever charts and supporting exhibits you deem appropriate, that covers the following points.

1. An assessment of the competitive forces operating in the online auction industry.
2. A brief identification and evaluation of the forces driving change in this industry.
3. A strategic group map showing the positions of the leading competitors.
4. A concise discussion of the key success factors for competing in the online auction market.
5. A SWOT analysis of eBay (a supporting exhibit containing your bullet points would be appropriate, but you should discuss the conclusions of the SWOT in the body of your report).
6. An assessment of eBay's competitive strength vis-à-vis its major competitors (a supporting exhibit showing your ratings and calculations is definitely appropriate here).
7. The issues that you think Omidyar and Whitman should focus their attention on.
8. A set of recommended actions to strengthen eBay's competitiveness and maintain its historical growth rates in revenues and earnings. Each recommendation should be accompanied by persuasive supporting arguments.

You are expected to provide eBay's senior executives with a report that is thorough and thoughtfully prepared, that reflects strong grasp and application of the tools and concepts of

industry and competitive analysis and company situation analysis, and that is professionally presented in every respect.

## **Assignment Questions**

1. What is competition like in the online auction industry? Do a five-forces analysis to support your conclusion.
2. What is the competitive arena in online auctions — local, regional, national, multinational, or global? Is the arena changing? Is global competition a future possibility?
3. What forces are operating in the online auction macro-environment that have the power to alter the nature and structure of competition in the online auction industry?
4. What does a strategic group map reveal about the positions of the major players in the online auction industry? Is eBay in a good position on the map? Why or why not?
5. What do you see as the key success factors for firms in the online auction business?
6. What does a SWOT analysis reveal about eBay's situation? Is the company in an attractive situation and position? Why or why not?
7. What is your assessment of eBay's financial condition?
8. Does your competitive strength analysis of eBay and its rivals reveal that eBay has a competitive advantage or a disadvantage? What are the sources of the advantage or disadvantage?
9. Based on your analysis of the industry and of eBay's situation, what problems and issues does eBay's top management need to address? Which ones are top priority? low priority?
10. What actions would you recommend to Ms. Whitman and Mr. Omidyar to improve the company's competitive position and long-term financial performance?

## Teaching Outline and Analysis

### 1. What is competition like in the online auction industry? What do we learn about the nature and strength of competitive pressures from doing a five-forces analysis?

Students will need to think carefully about what the five-forces model looks like in this case because eBay's customers include both those listing items for sale and those bidding on the listed items. Figure 1 shows the five-forces model.

#### Figure 1 | A Five-Forces Model of Competition in the Online Auction Industry

An interesting discussion here can center on who are the suppliers and who are the customers. Many students are initially inclined to see the customers as the bidders at the online auctions and the suppliers as those listing goods for sale. However, once we ask the students who pays for the auction services, most realize that the customers are really the sellers who list their goods on the online auction services. The suppliers to the online auction rivals are those companies that supply the products such as servers, software, and web-hosting services that allow the online auctioneers to facilitate the auctions.

#### **Rivalry Among Online Auction Firms** — *A relatively strong force*

- Rapid industry growth weakens rivalry
- Recent entry of important new competitors heightens rivalry
- Jockeying for position among rivals is active (= stronger rivalry) and centers around
  - Image, reputation, brand awareness
  - Co-marketing alliances to help build site traffic and user awareness — online rivals compete for visibility on high-traffic sites
  - Numbers and type of auctions

- Website functionality and features
- Fees/commissions charged to listers of items
- Caliber and breadth of information resources
- Customer confidence in using the site (security, safety, fraud protection)
- Users have low switching costs (= stronger rivalry)
- There's only moderate product differentiation among rival auction sites (= stronger rivalry)

**Bargaining Power of Suppliers and Seller-Supplier Collaboration** — *Not a strong source of competitive pressure at present*

- Software, servers, and website hosting services are readily available at competitive prices from multiple sources
- Seller-supplier collaboration does not appear to be a competitive factor
- The only “suppliers” with bargaining clout are other high traffic websites that may be a source for attracting Internet users to auction sites (we see these more as marketing-related alliances for which cash payments may be made). But such alliances/partnerships do create a “supply” relationship of sorts, and some students may include this competitive force here (rather than in the rivalry portion where we put it).

**Competitive Pressures from Substitutes for Online Auctions** — *A relatively weak force*

- There are lots of substitutes — classified ads, garage sales, flea markets, and live auctions but they suffer deficiencies vis-a-vis online auctions:
  - High transactions costs (time, convenience, costs)
  - Cover only a limited market area in terms of ability to engage and match buyers and sellers.
- The rapid growth and popularity of online auctions suggests that online auctions are siphoning business away from the substitutes (a signal that substitutes are weak) rather than the other way around (substitutes would be considered a strong competitive force if they were draining revenues and patronage away from online auctions). So even though there are lots of substitutes, it doesn't follow in this instance that they represent a strong source of competitive pressure.

**The Threat of Additional Entry** — *A moderately strong source of competitive pressures*

- Entry barriers are relatively low except for the marketing/advertising costs of attracting site users.
  - Launching a website for online auctions entails costs that many entry candidates can easily surmount.
- It is hard for incumbents to retaliate with actions to cut off a newcomer's opportunities to gain a market foothold.
- The industry is growing and appears to have attractive profit prospects (a stronger likelihood of entry). High profit potentials lure new competitors.
- Likely entry candidates include other Internet portals, existing online auctions looking to enter new geographic arenas where they do not have a presence, and start-ups looking to establish a niche auction for a particular product category. Start-ups are likely to be most successful entering country markets where online auctions are just starting to become popular.

**Bargaining Power of Customers** — *Limited, a moderate to weak source of competitive pressure*

- Individuals have little if any leverage to bargain for more favorable terms of use from an auction site operator — no one user accounts for a significant fraction of total industry sales (there are millions of customers). However, eBay does pay close attention to what its users think—it listens to them and responds when it thinks they have a valid point about what eBay should and should not do; so customers have a point when they argue that individuals are not without some ability to express their opinion and try to influence the practices of online auction rivals.
- Power sellers (especially sellers who list hundreds or thousands of items of big-ticket items) probably have some bargaining leverage because they list items on a regular basis:
  - Power sellers are likely to gather information about the fees/commissions/services of rival online auction sites.
  - Commissions/fees charged by an online auction site can represent a significant dollar cost to power sellers.

- Differences in fees/commissions from site to site may be great enough to induce a power seller to switch sites (something a power seller can utilize in bargaining or at least trying to influence the practices of online auction companies).
- The products of alternative sites are largely undifferentiated (unless a power sellers items, for whatever reason, sell better on one site than another), which lowers switching costs.
- Switching costs are likely to be low for both individuals and power sellers.
- Site users can “vote” by their volume of items listed and by the number of bids entered; collectively, these votes may result in “bargaining power”, but individually they are likely to count for little (except in the case of power seller).

**Overall assessment:** Competitive forces have been weak to moderate until recently. The launch of additional auction sites (in response to eBay’s rapid growth and success) is turning the online auction industry into a much more competitive business. Rivalry among online auctions is definitely heating up quickly and promises to be active and vigorous for some time to come as recent entrants take aim at eBay and try to draw eBay customers away. A battle for market share is now unfolding, but industry growth prospects look good and so do profit prospects. So, despite increased rivalry, the online auction market looks attractive (which explains why the recent entrants elected to get into the business and why further entry might occur—especially in foreign country markets).

**2. What is the competitive arena in online auctions — local, regional, national, multinational, or global? Is the arena changing? Is global competition a future possibility?**

The Internet allows the competitive arena to be whatever scope an online auction operator wants to pursue. An online auction operator can hold local auctions; it can readily have “national” auctions (attracting buyers/sellers from an entire nation); it can have sites in several different countries, each in the target country’s language; and it can have “global” auctions where Internet users from all over the world go to a particular site and participate as either buyers or sellers.



eBay, for example, operates in several different geographic arenas simultaneously — it has local auctions in certain U.S. locations; it has national auctions in the U.S. and other countries in Europe, Asia/Pacific, and Latin America.

The inherently global nature of the Internet makes the online auction industry an obvious candidate for becoming globally competitive over the next 5-10 years, as the leading firms seek to build positions in more and more country markets in order to sustain rapid growth. eBay, needing to enter additional country markets in order to maintain rapid growth, is already starting to race for global market leadership.

**3. What forces are operating in the online auction macro-environment that have the power to alter the nature and structure of competition in the online auction industry?**

Students ought to point to at least three of the following as candidate driving forces:

- Growing use of the Internet by individuals and households across the world (a favorable impact on the potential for rapid industry growth).
- Recent entry of major competitors and the potential for further entry (an unfavorable impact on the intensity of rivalry among online auction sites).
- Advances in Internet technology as concerns site reliability, the security of credit card transactions, and user connection speeds (a favorable impact on industry growth).
- The long-term potential for global competition as the industry leaders maneuver and position themselves to contend for global market leadership.

**4. What does a strategic group map reveal about the positions of the major players in the online auction industry? Is eBay in a good position on the map? Why or why not? Who are eBay's closest competitors?**

The map that students draw, of course, varies according to their choice of variables for axes. Two variables stand out here: the number of auction categories and reputation/brand awareness. Figure 2 shows a representative strategic group map using these two variables. While other variables could be chosen for the axes, the information presented in the case is not extensive or complete enough to map the industry with many other variables.

We see eBay as being in excellent market position — it is in the best position on the map we think. Over time, uBid.com, Yahoo! Auctions, and Amazon.com Auctions are likely to attack eBay by broadening their variety of auction categories, making them eBay's closest competitors. Local live auctions and flea markets are poorly positioned relative to eBay because products are exposed to a fewer number of potential buyers in such markets. In addition, local auctions and markets carry considerably higher transaction costs than what is found with online auctions. Classified newspaper ads have similar limitations, but may have an advantage relative to eBay in selling merchandise such as automobiles, real estate, and boats where buyers may wish to closely inspect big-ticket items prior to making a purchase decision.

**Figure 2 | A Representative Strategic Group Map for the Online Auction Industry And Auction Substitutes**

**5. What do you see as the key success factors for firms in the online auction industry?**

Students ought to pinpoint the following KSFs:

- Image/reputation/awareness among Internet users
- Appealing website features and functionality
- Marketing skills in attracting quality buyers and sellers in adequate/growing numbers
- An appealing number and variety of items auctioned (although specialty or niche auctions have prove successful)
- Competitive fees and commissions
- Cost-effective website operations
- Skills in creating a pleasant, compelling, and entertaining trading environment built on trust, security/safety, and customer confidence

**6. What does a SWOT analysis reveal about eBay's situation? Is the company in an attractive situation and position? Why or why not?**

**eBay's Resource Strengths/Competitive Assets**

- Best image/reputation in the industry
- More than 6 million items listed for sale in auction format at year-end 2000
- Strong management team
- Financial resources available to fund growth (authorization to sell \$1 billion worth of shares over an unspecified time)
- Broad strategic alliance portfolio (more than 250 partners) that includes a wide variety of partners
- Broad range of auctions and a diverse selection of goods (8,000 product categories in 2001)
- Broad user base (22 million registered users — case Exhibit 1)
- Very functional website that is relative easy to navigate
- Live auctions linked to brick and mortar auction houses around the world
- eBay Motors automobile auctions
- Professional services auctions
- eBay Real Estate auctions
- eBay alliance with Boats.com to auction marine products
- The SafeHarbor program and feedback forum promote user confidence
- Strong sense of community among eBay customers
- More than 8 million items listed on Half.com in a fixed price format at year-end 2000
- Over 60 regional sites
- eBay university that travels across the U.S. and has online classes that teach the basics and finer points of buying and selling online
- eBay has received numerous honors and awards for its e-commerce success

### **eBay's Resource Weaknesses/Competitive Liabilities**

- eBay's first mover advantage is fading
- Company could be initiating too many new services and categories too quickly
- eBay is not strongly entrenched in foreign country markets—it has only a foothold in several locations and may not succeed in all of them because local rivals may have the savvy and strength to beat them out on their own turf.

### **External Opportunities**

- Online auction opportunities in additional foreign markets, especially where there is a tradition of live auctions, garage sales, flea markets, and on (don't have to spend on educating users to auction procedures and process)
- Expansion of niche auctions (local auctions and auctions centered around specific categories)
- Rising Internet usage worldwide
- Expansion of big-ticket auctions (real estate, automobiles, art, and boats)

### **Threats to eBay's Long-Term Well-Being**

- Occasional fraudulent or illegal activity of eBay sellers
- Competition is increasing from major players such as uBid.com, Yahoo! Auctions and Amazon.com Auctions as well as various niche auctions
- Well established competitors exist in some foreign markets
- Some small eBay users are disenchanted with the company's efforts to cater to the needs/ desires of "power sellers" and are vocal in expressing their disapproval—their disenchantment could cause trouble for eBay, despite eBay's efforts to be a good listener and to respond to user concerns

7. **What is your assessment of eBay's financial performance and financial condition? Is the company in good financial shape? Why or why not?**

Case Exhibit 1 documents eBay's rapid business growth:

- From 41,000 users in 1996 to 22,000,000 in 2000 and another big jump in 2001 to 42.4 million users at year-end.
- From \$7 million in merchandise sales in 1996 to \$5.4 billion in 2000 and over \$9.3 billion in 2001.
- From 289,000 auctions in 1996 to 264,700,000 auctions in 2000 to 423 million auctions in 2001.

Case Exhibits 3 and 4 show eBay's financial performance:

- Revenues are up from \$32.1 million in 1996 to \$748.8 million in 2001 — an 87.7% CAGR.
- Unlike many dot.com companies, eBay is profitable
  - Net income has climbed from \$3.34 million in 1996 to \$90.4 million in 2001 — a 93.4% CAGR.

If students do some number crunching, they can generate the following financial statistics from case Exhibits 3 and 4:

		<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Net revenue growth	n.a.	29.1%	108.2%	160.9%	91.6%	73.6%	
Operating profit margin	20.0%	25.9%	14.8%	-0.5%	8.1%	18.8%	
Operating expenses as a % of revenue	58.7%	61.1%	66.5%	74.9%	69.8%	63.2%	
Sales and marketing expenses as a % of revenue	41.0%	37.85%	41.8%	42.7%	38.7%	33.8%	
Marketing expenses per customer/registered user	\$320.46	\$45.80	\$16.50	\$9.59	\$7.58	\$5.98	
Marketing expenses per listing	\$45.46	\$3.55	\$1.07	\$0.74	\$0.63	\$0.60	
Return on assets (ROA)	n.a.	125.7%	4.9%	1.1%	4.1%	5.4%	
Return on equity (ROE)	n.a.	695.7%	7.2%	1.3%	4.8%	6.3%	
Current ratio	n.a.	4.4	4.0	5.2	4.9	4.9	
Debt-to-assets ratio	n.a.	5.4%	12.3%	1.6%	1.0%	0.7%	
Debt-to-equity ratio	n.a.	30.0%	18.3%	1.8%	1.1%	0.8%	
Net income per share (EPS)							
Basic	\$0.39	\$0.29	\$0.07	\$0.04	\$0.19	\$0.34	

Diluted	\$0.07	\$0.08	\$0.03	\$0.04	\$0.17	\$0.32
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n.a. = not available    Operating profit margin = (Profits before taxes and interest)/Net revenues    ROA = Profits after taxes/Total assets    ROE = Profits after taxes/Total stockholders' equity    Current ratio = Current assets/Current liabilities    Debt to assets = (L-T debt/Total assets)    Debt to equity = (L-T debt/Total stockholders' equity)

Analysis of eBay's income statement and balance indicate that the company's financial performance has been good and that it is in good financial shape.

- The company has \$723 million in cash and short-term investments with which to fund growth and expansion (due to capital raised from sale of additional shares of common stock)
  - The new stock issues account for why the return on equity has fallen so much. Some students may see this as a sign of weakness; we would disagree. eBay needs equity capital to fund expansion; once the capital in reserve has been deployed, then we should expect profits to rise and boost ROE to "normal" or higher levels. If that doesn't occur, then we could correctly conclude that the company has not invested its capital well.
- In 2001, eBay's income from operations exploded to 4 times the 2000 level of \$35 million on revenue growth of 73.6%. In addition, operating income increased from -\$1.2 million to over \$140 million between 1999 and 2001.
- Marketing expenses per registered user and per auction are declining nicely, plus it is fair to conclude that the marketing expenditures are effective in helping produce good rates of growth.
- The company has minimal debt.

**8. Does your competitive strength analysis of eBay and its rivals indicate that eBay has a competitive advantage or a disadvantage? What are the sources of advantage or disadvantage?**

There's enough data in the case to evaluate and compare the relative strengths of eBay, uBid, Yahoo! Auctions, and Amazon.com Auctions. Student should utilize the information in case Exhibits 8-13, in addition to the discussion of each competitor.

Table 1 presents our competitive strength assessments. We see eBay as significantly stronger than uBid, Amazon.com Auctions, and Yahoo! Auctions. While eBay is plainly the strongest online auction business, Yahoo! and Amazon have four strengths that make them potentially formidable in online auctions:

- A large user/visitor base
- A widespread and well-known reputation among Internet users and online auction enthusiasts
- Good website features and functionality
- User confidence

UBid's strength is in its loyal following in its limited niches, but the company also has a significant number of competitively important alliances and has been recognized with honors and awards. UBid's major limitation is its lack of brand awareness, image, and reputation. Industry analysts suggested uBid was eBay's strongest rival in certain niches. If the company could achieve the image/reputation of Amazon or Yahoo!, it might prove to be a formidable competitor in many more auction categories. However, in 2001, uBid's market share of 14.7% fell far behind eBay's 64.3% market share and the market shares of Yahoo! Auctions and Amazon.com Auctions, at 2.4% and 2.0%, respectively, paled in comparison to that of eBay.

One might conclude that eBay has a competitive advantage in online auctions because of several factors:

- Its user base is exclusively related to auctions (this is not true for Yahoo! and Amazon)
- Its number and variety of auctions
- Its market share (eBay is by far the dominant company in online auctions)
- Its growth of Power Sellers

- Its launch of big-ticket item auctions
- Its strong financial performance (a profitable and proven strategy and business model)
- Its widespread and well-known reputation in online auctions (in a very real sense, eBay is the name one first thinks of in online auctions); eBay has far and away the best reputation in online auctions
- It has a huge, loyal user base that is growing rapidly

**9. Based on your analysis of the industry and eBay's situation, what problems and issues does eBay's top management need to address? Which ones are top priority? low priority?**

Our list of issues, in roughly descending order from top priority to low priority, is as follows:

- Is eBay doing enough of the right things to sustain its growth rate? Is more needed?
- How to broaden the customer base and develop new sources of revenues?
- How to maintain eBay's strong market share leadership and avoid becoming one among many leading auction sites? How to fight off competitors?
- How to respond to the needs of small sellers who feel threatened by Power Sellers and large corporate sellers?
- How fast to expand into foreign markets? Via acquisition or start-up?
- How to expand big ticket item sales?

**10. What actions would you recommend to Ms. Whitman and Mr. Omidyar to improve the company's competitive position and long-term financial performance?**

We think the following recommendations are appropriate:

- Add sites in additional foreign country markets



- Choose where there are lots of Internet users and where use is growing, plus where auctions are popular and customary
- Consider acquisition as a means of entry, using start-ups when no attractive acquisition can be found
- Add more regional or local auctions
  - Facilitate transfer of goods from seller to buyer
  - May enhance confidence in using online auctions
  - Very low incremental costs
  - Regional/local users may become users of “main” auction site
- Respond to concerns of small sellers
  - Supplement eBay University course offerings with content that addresses needs of small sellers
  - Create a sub-site where consumers choosing to do business exclusively with small sellers
  - Expand chat capability for small sellers who have time to respond to inquiries from bidders in real time
- Expand big ticket item auctions like used and new motor vehicles through alliances with local dealers or regional sellers
  - Generate larger fees that will promote faster revenue growth
- Expand fixed price transactions
  - Fixed price transactions makes eBay a stronger rival Wal-Mart and other brick-and-mortar retailers
  - Fixed price transactions, like big ticket item auctions, may generate larger fees
- Collaborate with local real estate brokers in conducting absolute auctions and foreclosure auctions
  - Generate larger fees that will promote faster revenue growth

- Complete integration of Half.com with eBay's infrastructure and support activities
  - Pursue cost sharing opportunities across the value chains of eBay and Half.com to improve overall cost position
  - Seek out skills transfer opportunities between the two sites
  - Utilize co-branding and brand sharing if possible
- Continue strong efforts to guard against fraud by users
  - Threatens eBay's reputation and can cause users to lose confidence in online auctions
- Enter into more alliances to help generate additional site traffic and build awareness of eBay
  - Alliances with portal sites
  - Alliances with email services such as Hotmail
- Perhaps engage in advertising/promotions designed to attract users of Internet to visit eBay
  - Use banner ads on portals
  - Free email service

## **Epilogue**

The company's 2001 results were boosted by the growing popularity of its fixed price shopping option—fixed price shopping during the fourth quarter of 2001 accounted for 19% of the gross value of all goods sold through eBay, up from 16% in the third quarter.

Also in 2001, eBay was able to maintain a 99.9% site accessibility rate during the year as its relationship with Sun Microsystems had improved the stability of its site. The company also began storefront and auction alliances with Playboy, Sotheby's, ESPN, Callaway Golf, and Nike Golf in late-2001 and early 2002.

In January 2002, eBay increased its fees for auction transactions, in some cases more than doubling the amount sellers would be required to pay. In February 2002 eBay entered into an agreement with Collectors Universe to allow the company's 42 million registered users to bid in real time alongside bidders in local live auctions. eBay's live auction technology would allow its Internet users to place bids at live auctions around the U.S. without traveling to the location.

eBay also agreed to acquire Taiwan's NeoCom during February 2002 in a bid to crack the Chinese market for online auctions. NeoCom was the operator of two of Taiwan's largest auction sites, bid.com.tw and ubid.com.tw and generated about US\$11 million in sales during 2001.

In a rare failure for the company, eBay closed its online auction site in Japan in February 2002. However, it announced the establishment of a strategic partnership with EachNet, the leading online auction community in China. eBay planned to invest \$30 million to acquire a 33% interest in EachNet, thus gaining a foothold in one of the world's fastest growing Internet markets.

Further eBay updates will be posted in the Case Epilogue Updates section of the Instructor Center at the website for the text ([www.mhhe.com/thompson](http://www.mhhe.com/thompson)).