



RAMON CASADESUS-MASANELL

ANANT THAKER

eBay, Inc. and Amazon.com (B)

When you look at it across our portfolio, what we now have is a capability that extends from sole proprietors to small businesses, now squarely into the large merchants.

— eBay CEO John Donahoe on the acquisition of GSI Commerce, March 2011¹

On March 28, 2011, eBay agreed to acquire GSI Commerce, a provider of e-commerce services for retailers, for approximately \$2.4 billion – financed with a combination of cash and debt (see **Exhibit 1** for GSI's summary financial data).² At the time of the acquisition, GSI operated in three business segments: 1) Global e-Commerce Services (GeC), which enabled companies to operate e-commerce businesses and integrate their multi-channel retail offerings; 2) Global Marketing Services (GMS), which helped clients utilize digital marketing channels; and 3) Consumer Engagement, which consisted of two consumer-facing e-commerce businesses, Rue La La and ShopRunner.³ As part of the transaction, eBay agreed to divest 100% of GSI's licensed sports merchandise businesses and 70% of GSI's Rue La La and ShopRunner businesses to a newly formed holding company.⁴

The GeC segment, which was responsible for 75% of GSI's revenue in 2010, served over 180 enterprise clients operating in categories such as apparel, sporting goods, toys & babies, health & beauty, and home.⁵ Many were nationally recognized brand names such as Adidas, Calvin Klein, Toys R Us, Dick's Sporting Goods, and Bath & Body Works.⁶ The segment was comprised of three primary units: Technology & Payments, Operations, and Licensed Sports Merchandise.⁷ The first two contained the core of GSI's service offerings to retailers: an e-commerce technology platform and order-management, fulfillment and shipping services.⁸ (See **Exhibit 2** for a detailed overview.)

According to eBay CEO John Donahoe, the acquisition would help eBay accomplish three things:

One, it extends our company's reach into large brands and retailers. Second, we believe the combination of these two companies will strengthen GSI's business, and GSI will help strengthen eBay and PayPal's business, through incremental business. And lastly, that our two platforms can come together and form an unmatched commerce services stack for retailers of all sizes...The primary focus for GSI in 2011 is to focus on executing on their plan with large retailers and brands, and we will begin to evolve our platforms toward a common direction which we believe can serve large businesses and small across eBay, PayPal, and now GSI (see **Exhibit 3**).⁹

Professor Ramon Casadesus-Masanell and Anant Thaker (MBA 2011) prepared this case. This case was developed from published sources. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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Exhibit 1 Summary Financial Data for GSI Commerce (in millions)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Income Statement Data:												
Net Sales	\$5.5	\$42.8	\$102.6	\$172.6	\$241.9	\$335.1	\$440.4	\$609.6	\$750.0	\$966.9	\$1,004.2	\$1,358.0
Product Sales	\$5,511	\$42	\$98	\$155	\$217	\$275	\$355	\$461.2	\$512.2	\$577.1	\$542.2	\$777.3
Service Fees	\$0.000	\$1	\$4	\$18	\$25	\$60	\$85	\$148.4	\$237.8	\$389.9	\$462.0	\$580.6
Cost of Goods Sold	\$4	\$30	\$67	\$114	\$155	\$203	\$264	\$331.3	\$356.5	\$405.3	\$398.6	\$565.4
Gross Profit	\$1.7	\$13.2	\$36.1	\$58.4	\$87.2	\$131.7	\$176.6	\$278.3	\$393.4	\$561.6	\$605.6	\$792.6
Sales and marketing	\$12	\$39	\$33	\$51	\$61	\$82	\$108	\$165.9	\$241.9	\$330.6	\$327.9	\$425.5
Product development	\$7	\$7	\$9	\$12	\$14	\$21	\$29	\$45.4	\$65.9	\$104.2	\$120.2	\$161.3
General and administrative	\$11	\$12	\$20	\$15	\$14	\$19	\$23	\$36.1	\$43.4	\$69.0	\$82.9	\$112.0
Other operating expense (income), net	\$1	\$8	\$7	\$15	\$11	\$11	\$15	\$21.3	\$37.3	\$68.1	\$64.3	\$111.1
Total operating expenses	\$31	\$67	\$69	\$93	\$100	\$132	\$174	\$268.7	\$388.5	\$571.9	\$595.3	\$809.9
Operating Income (Loss)	(\$29)	(\$54)	(\$32)	(\$34)	(\$13)	(\$0)	\$3	\$9.6	\$4.9	(\$10.3)	\$10.3	(\$17.3)
Net Income (Loss)	(\$43.247)	(\$58)	(\$30)	(\$34)	(\$12)	(\$0)	\$1	\$44.9	(\$1.0)	(\$23.0)	(\$11.0)	(\$36.5)
Balance Sheet Data:												
Long-term debt	\$2	\$5	\$5	\$0	\$0	\$14	\$71	\$70	\$235	\$195	\$145	\$156
Total Assets	\$83	\$160	\$191	\$188	\$176	\$232	\$332	\$457	\$670	\$716	\$1,062	\$1,107
Total Liabilities	\$23	\$44	\$43	\$66	\$64	\$114	\$195	\$222	\$389	\$442	\$586	\$544
Total stockholders' equity (deficit)	\$59	\$116	\$147	\$122	\$112	\$118	\$137	\$236	\$281	\$274	\$476	\$563
Cash Flow Statement Data:												
Net cash provided by operating activities	(\$26)	(\$39)	(\$14)	\$10	\$0	\$24	\$24	\$66	\$58	\$96	\$140	\$140
Capital Expenditures	(\$18)	(\$14)	(\$8)	(\$29)	(\$8)	(\$37)	(\$30)	(\$43)	(\$54)	(\$57)	(\$43)	(\$71)
Free cash flow	(\$44)	(\$53)	(\$23)	(\$19)	(\$8)	(\$14)	(\$5)	\$23	\$4	\$39	\$97	\$69
Other Metrics:												
Shipping revenue	\$0.1	\$3.0	\$10.5	\$15.3	\$23.6	\$30.9	\$40.7	\$59.2	\$82.9	\$120.2	\$133.1	N/A
Outbound shipping cost	\$0.6	\$6.0	\$11.5	\$18.2	\$25.1	\$34.4	\$44.4	\$63.8	\$88.8	\$124.2	\$133.1	N/A
Net shipping profit (cost)	(\$0.6)	(\$3.0)	(\$1.0)	(\$2.9)	(\$1.5)	(\$3.5)	(\$3.7)	(\$4.6)	(\$5.9)	(\$4.0)	\$0.0	N/A
Fulfillment Capacity (square feet)		0.3	0.4	0.5	0.5	0.9	0.9	1.4	2.7	2.5	2.7	3.0
E-commerce Clients	4	7	13	23	31	39	49	55	79	N/A	N/A	180

Source: Company 10-Ks, Goldman Sachs, comScore Media Metrix.

Exhibit 2 GSI Commerce's Key Services for Retailers*Technology & Payments*

The technology & payments business unit provides e-commerce technology products and services on a global basis. The business unit shares common sales, service, operations and administration teams for three business units: 1) webstore & mobile, 2) commerce exchange & multi-channel, and 3) payments.

- **Webstore & Mobile:** GSI Commerce's webstore & mobile store offering is a global platform that includes secure shopping cart and checkout offerings, analytical tools, site management tools, including catalog, content and promotions management, and guided product discovery. Additionally, GSI's front-end solution will offer full mobile store capabilities in its new version planned to launch in 2011.
- **Commerce Exchange & Multi-Channel:** Commerce exchange is a global platform with transactional capabilities, including order management, inventory management and fulfillment integration. Multi-channel is a suite of software products that enables in-store pickup, ship-from-store, ship-to-store, and drop ship capabilities. The foundation of the multi-channel offering utilizes the CommerceSuite product from VendorNet, a company acquired in May 2010.
- **Payments:** GSI Commerce provides a robust online payment processing engine with capabilities including price, tax and shipping calculations, address verification, order review and fraud prevention, credit card authorization and settlement, and alternative payment processing.

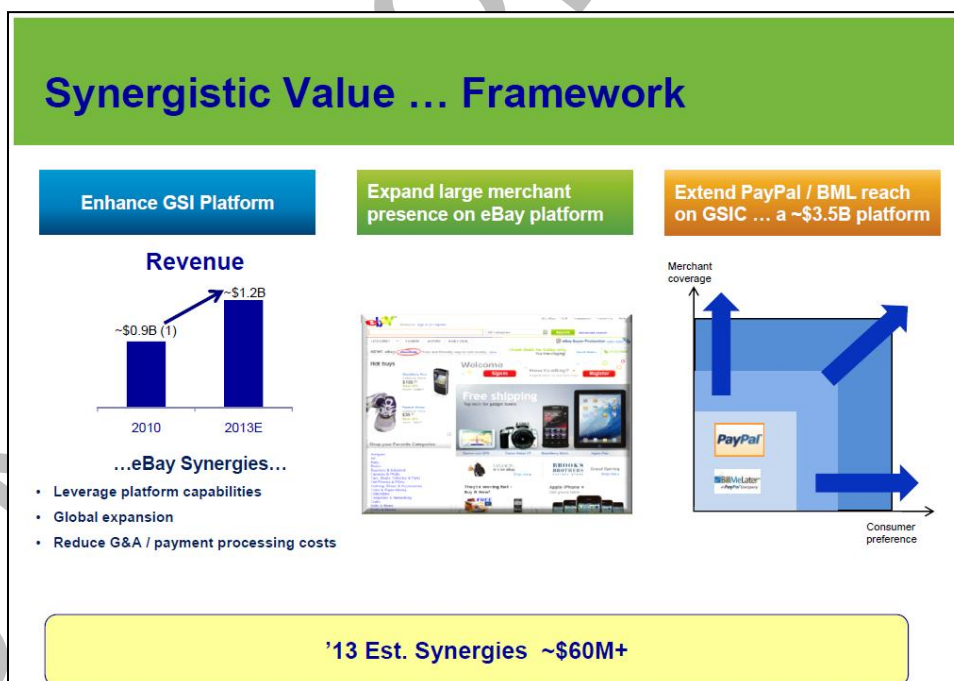
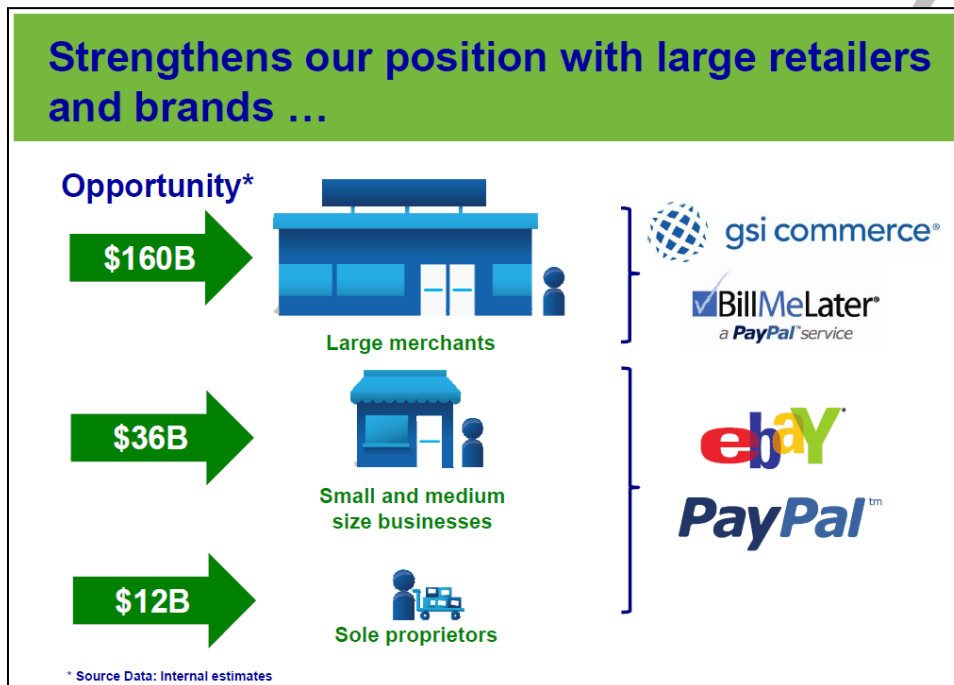
Operations

The operations business unit is separated into three business units that provide the following e-commerce operations services to companies in North America and Europe: 1) Fulfillment & Freight Services, 2) Customer Care and 3) Direct Response.

- **Fulfillment & Freight Services:** GSI Commerce operates five e-commerce fulfillment centers in the United States and one in Canada, encompassing over 2.7 million square feet as well as two facilities in the United Kingdom. Within these facilities, GSI Commerce utilizes a multi-level pick mezzanine infrastructure and world-class warehouse management systems to provide customized direct-to-consumer fulfillment solutions, including order management, real-time order status updates, and reverse logistics services. Through scale and partnership with leading freight providers, the Company offers clients favorable shipping rates and innovative freight programs, including its ShipQuick shipping program. Under this program, packages are presorted by customer zip code shortening time in transit.
- **Customer Care:** Through three call centers in the United States and a network of at-home agents, plus one call center in the United Kingdom, GSI Commerce provides customer care capabilities for e-commerce via telephone and email. The Company combines proprietary and third-party technologies, including automatic call distribution, computer telephony integration, interactive voice response (IVR), e-mail, workforce management, voice recording/monitoring and customer relationship management systems in the customer care platform. The U.K. call center offers customer care in 11 languages.
- **Direct Response:** Direct response provides fulfillment, call center and related value added services to the direct response television industry. The Company operates fulfillment and call center facilities that are located near the port of Los Angeles, which enables it to quickly turnaround inbound containers from Asia. Direct response utilizes a proprietary technology system that supports the unique needs of the direct response industry, including multi-pay, upsells and backorder management.

Source: GSI Commerce, December 31, 2010 Form 10-K, via EDGAR, accessed January 2011.

Exhibit 3 Select Slides From eBay Presentation on Acquisition of GSI Commerce



Source: eBay, "eBay Inc. to Acquire GSI Commerce: Investor/Analyst Call," eBay website, <http://files.shareholder.com/downloads/eBay/1206603397x0x454637/af1c8c35-5a0c-49a3-8972-28defedb5480/eBay-GSIAcquisitionFINAL.pdf>.

Endnotes

¹ GSI Commerce, March 28, 2011, Form 14A, <http://www.sec.gov/Archives/edgar/data/828750/000095012311029827/c14763defa14a.htm>, accessed March 2011.

² "eBay Inc. to Acquire GSI Commerce, eBay press release," March 28, 2011, http://www.ebayinc.com/press_releases#20110328006021, accessed March 2011.

³ GSI Commerce, December 31, 2010 Form 10-K, via EDGAR, accessed January 2011.

⁴ "eBay Inc. to Acquire GSI Commerce, eBay press release," March 28, 2011, http://www.ebayinc.com/press_releases#20110328006021, accessed March 2011.

⁵ GSI Commerce, December 31, 2010 Form 10-K, via EDGAR, accessed January 2011.

⁶ Ibid.

⁷ Ibid.

⁸ Ibid.

⁹ GSI Commerce, March 28, 2011, Form 14A, <http://www.sec.gov/Archives/edgar/data/828750/000095012311029827/c14763defa14a.htm>, accessed March 2011.