

CASE EXAMPLE

Making eBay work

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In 2006, there were over 200 million eBayers worldwide. For around 750,000 people, eBay (<http://www.ebay.com/>) was their primary source of income. A survivor of the dot.com bust of the late 1990s, eBay represents a new business model courtesy of the Internet. Whatever statistics you choose – from most expensive item sold to number of auctions in any one day – the numbers amaze. ‘This is a whole new way of doing business,’ says Meg Whitman, the CEO and President since 1998. ‘We’re creating something that didn’t exist before.’

eBay's business model

Value in eBay is created by providing a virtual worldwide market for buyers and sellers and collecting a tax on transactions as they happen. The business model of eBay relies on its customers being the organisation's product development team, sales- and marketing force, merchandising department and the security department. It is arguably the first web 2.0 company.

According to eBay managers, of key importance is listening to customers: keeping up with what they want to sell, buy and how they want to do it. If customers speak, eBay listens. Technology allows every move of every potential customer to be traced, yielding rich information. Conventional companies might spend big money on getting to know their customers and persuading them to provide feedback; for eBay such feedback is often free and offered without the need for enticement. Even so some of the company's most effective ways of getting user input do not rely on the net and do not come free. eBay organises Voice of the Customer groups which involve flying in a new group of about 10 sellers and buyers from around the country to its offices every few months to discuss the company in depth. Teleconferences are held for new features and policies, however small a change they involve.



Photo: Claro Cortes IV/Reuters/Corbis

Even workshops and classes are held to teach people how to make the most of the site. Participants tend to double their selling activity on eBay after taking a class. Others run their own websites offering advice on how to sell on eBay. Rumours have it that buyers have devised computer programs that place bids in the last moment. Sellers that leave the site unable to compete any more are known to write blogs on what went wrong to help others.

The company is governed from both outside and within. The eBay system has a source of automatic control in the form of buyers and sellers rating each other on each transaction, creating rules and norms. Both buyers and sellers build up reputations which are valuable, in turn encouraging further good behaviour in themselves and others. Sales of illegal products are dealt with by withdrawing what is on sale and invariably banning the seller.

eBay's management

Meg Whitman's style and past have heavily influenced the management of eBay. When she joined the

company in 1998, it was more of a collection of geeks, handpicked by the pony-tailed founder Pierre Omidyar, than a blue-chip, something which underpinned Omidyar's recruitment of Meg. Meg, an ex-consultant, filled many of the senior management roles including the head of the US business, head of international operations and vice president of consumer marketing with consultants. The result: eBay has become data and metric driven. 'If you can't measure it, you can't control it', Meg says. Whereas in the early days you could touch and feel the way the organisation worked, its current size means it needs to be measured. Category managers, reminiscent of Meg's days in Procter and Gamble, are expected to spend their days measuring and acting upon data within their fiefdom.

However, unlike their counterparts in Procter and Gamble, category managers in eBay can only indirectly control their products. They have no stock to reorder once levels of toothpaste or washing-up liquid run low on the supermarket shelves. They provide tools to buy and sell more effectively:

What they can do is endlessly try to eke out small wins in their categories – say, a slight jump in scrap-metal listings or new bidders for comic books. To get there, they use marketing and merchandising schemes such as enhancing the presentation of their users' products and giving them tools to buy and sell better.

Over and above this unusual existence, the work environment can be tough and ultra competitive, say ex-eBayers. Changes often come only after PowerPoint slides are exchanged and refined at a low level, eventually presented at a senior level and after the change has been approved in a sign-off procedure which includes every department.

In time eBay has upgraded its ability to ensure the technology does not rule. Until the late 1990s, the site was plagued with outages, including one in 1999 which shut the site down for 22 hours courtesy of software problems and no backup systems. Former Gateway Inc. Chief Information Officer Maynard Webb, who joined as president of eBay's technology unit, quickly took action to upgrade systems. Its use of technology is upgraded constantly. In 2005, Chris Corrado was appointed Senior Vice President and Chief Technology Officer. In eBay's press release COO Maynard Webb said:

Chris is one of the leading technology platform experts in the corporate world, and we are thrilled that he is joining us. It is testament to the tremendous reputation of the eBay technology organization that we were able to bring Chris to the team.

Meg is a leader who buys into the company in more ways than one. Having auctioned some \$35,000 (€28,000; £19,500) worth of furnishings in her ski condo in Colorado to understand the selling experience, she became a top seller among the company's employees and ensured that her learning from the experience was listened to by fellow top execs. Meg is also known for listening carefully to her employees and expects her managers to do the same. As the business is as much, if not more, its customers, any false move can cause revolts within the community that is eBay.

Most of all, eBay tries to stay aware and flexible. Nearly all of its fastest-growing new categories emerged from registering seller activity in the area and quietly giving it a nudge at the right moment. For example, after noticing a few car sales, eBay created a separate site called eBay Motors in 1999, with special features such as vehicle inspections and shipping. Some four years later, eBay expects to gross some \$1 billion worth of autos and parts, many of which are sold by professional dealers.

The democratic underpinning of eBay, whilst easily embraced by customers, can, however, take some getting used to. New managers take time to understand the ethos. 'Some of the terms you learn in business school – drive, force, commit – don't apply,' says former PepsiCo Inc. exec William C. Cobb, now President eBay North America, with a background in restaurants and PepsiCo, 'We're over here listening, adapting, enabling.'

Competition and cooperation

As the Internet has become a more competitive arena eBay has not stood still. In 2005 it bought Skype, the Internet telephony organisation (<http://www.skype.com/>), surrounded by much debate in the press as to the logic of the \$2.6bn deal. With Skype, eBay argues it can create an unparalleled e-commerce engine, pointing to the 2002 purchase of online payment system PayPal (<http://www.paypal.com/>) that spurred on the business

at that time. All three benefit from so-called network effects – the more members, the more valuable the company – and eBay has to be a world leader in managing network effects.

In 2006 it also announced a deal with Google. eBay is one of Google's biggest advert customers. Google in turn is attracted to eBay's Skype customers for click-to-call adverts. This deal was after eBay signed an advertising deal with Yahoo! which made some think eBay was teaming up with Yahoo! against Google's dominance. But in the interconnected world of the Internet, defining competition and cooperation is a new game. eBay also formed a partnership between Baidu Inc., a Chinese web portal bought by eBay in 2002, and eBay EachNet. Baidu promotes PayPal Beibao as the preferred payment method on Baidu whilst EachNet uses Baidu as its exclusive search provider. The development of a co-branded toolbar is set to cement the partnership. So whilst in the West Yahoo! and eBay are partnering against Google, in the East Yahoo! is a rival.

Despite eBay being the Internet auction phenomenon, it does not do as well in the East as the West. It pulled out of Japan, is suffering in Taiwan and lags behind a rival in China. In Korea, GMarket, partly owned by Yahoo!, is more or less equal in size to eBay's Internet Auction. GMarket offers less emphasis on open auctions than eBay, although eBay now does have eBay Express where new products from multiple sellers can be purchased in one transaction backed as ever by customer support including live chat.

Innovative marketing that makes the experience fun for shoppers and helps sellers improve their performance is perhaps another way GMarket differentiates itself from eBay. GMarket has itself attracted imitators.

Once a web 2.0 company always a web 2.0 company? Although the news did not produce much reaction when announced during an eBay Live! Session, in 2006 eBay created eBay Wiki (<http://www.ebaywiki.com/>), hosted by Jotspot, allowing people to contribute their knowledge of eBay to others, along with eBay blogs (<http://blogs.ebay.com/>). But eBay has always been about community so perhaps they will catch on in time.

Questions

- 1 Analyse eBay's strategic capability using an analytical framework(s) from the chapter.
- 2 What are the capabilities that have provided eBay with competitive advantage and why?
- 3 Using the concepts of sustainability and dynamic capabilities, how would you manage this capability (create new resources and competences, invest/divest in others, extend others), given:
 - (a) New entrants in the marketplace?
 - (b) The changing nature of eBay?