

The Globalization of eBay

On Labor Day 1995, Pierre Omidyar launched eBay—an online trading platform that permits peer-to-peer trading in an auction format.⁴¹ Essentially a Web-based forum, it provides an efficient market for buyers and sellers to connect. That is, eBay helps individuals and businesses buy and sell items in categories including antiques and art, books, business and industrial, cars, CDs & DVDs, clothing and accessories, coins, collectibles, computers and electronics, home furnishings, real estate, sporting goods and memorabilia, stamps, tickets, toys, and travel.

eBay discovered that buyers were seeking used or vintage items that sellers were eager to supply, hoping to make a profit. The way eBay was structured naturally placed it in the position of intermediary; it acted like a sophisticated software program running on a bunch of networked Web servers that left much of the work to sellers and buyers.

Operationally, then, eBay created an efficient distribution system that demanded virtually little supervision. Sellers paid eBay for the opportunity to design, set up, monitor, and supervise their particular auctions while buyers used eBay's software to search for products and place bids. After the auction clock ran out, the seller contacted the winning bidder to negotiate payment and shipping terms. For this matchmaking service, eBay charges between 7 and 18 percent of the closing auction price. In 1999, net revenues topped \$225 million. By 2006, revenues grew to \$6 billion with net income of \$1.1 billion. The company projects revenue near \$7.5 billion in 2007.

eBay linked its initial success to its core vision: to support interaction in the eBay community by providing a useful online platform to value-oriented buyers and sellers; to uphold the principles of trust and safety, guaranteeing low fraud losses and high transaction protection to its community; and to focus on market efficiency by delivering state-of-the-art information technology. Depicted as a Venn diagram, eBay saw its competitive advantage residing in the overlapping center zone whereby it could pioneer new communities around the world built on commerce, sustained by trust, and inspired by opportunity.

eBay's value proposition hasn't changed since its inception. Management confesses surprise at how extensible its strategy has been to new products, services, and markets. eBay's users generated a total of 588 million listings in the first quarters of 2007; these listings summed to a gross merchandise value of \$14.28 billion. eBay's users totaled more than 100 million and were spread among more than 150 nations; these users included individual buyers and sellers, small businesses, and even large-scale enterprises.

From the buyer who shops on eBay for practical needs or for fun, to the seller who relies on eBay as a primary source of income, eBay has become a part of many users' lives. As such, eBay's platform is a leading general shopping destination on the Internet in virtually every market where it operates. Few dispute eBay's self-characterization that its array of buyer and seller services makes it a driving force of global e-commerce.

The success of eBay as an online trading platform relies on delivering network benefits. A host of companies are developing services to support trading on the eBay platform, such as Square Trade, a dispute-resolution service, and Auctionwatch, an automated item listing service. Adding to its success, more companies are building businesses that extend from eBay's platform. As Meg Whitman, president and CEO, notes, "the thing is, we're not the only source of innovation. We're so well-served by letting others think about how to make this platform even more powerful."

Where gaps remained, eBay quickly found solutions. For example, early on, the single biggest friction point in the buyer-to-seller link was the lack of an efficient way for the buyer to pay the seller. To remedy this, in 2002, eBay acquired PayPal, an online financial service, to enable any individual or business with an e-mail address to send and receive payments online securely, easily, and quickly.

Similarly, eBay believed buyers and sellers would increasingly prefer to speak to each other. So, in late 2005, it acquired Skype, a software protocol that enables free Voice over Internet Protocol (VoIP) calls between Skype users online as well as low-cost connectivity to traditional fixed-line and mobile telephones.



Global Expansion

The success of U.S. operations had, by the turn of the century, inspired eBay to define its mission as providing a global trading platform where practically anyone, anywhere, could trade practically anything at anytime. By 2007, eBay's growing global reach meant its members could rely on local sites that served customers in such countries as Australia, Austria, Belgium, Canada, France, Germany, India, Ireland, Italy, South Korea, Singapore, Spain, Sweden, Switzerland, Taiwan, and the United Kingdom.

Once eBay was firmly established in the United States, management looked to the overseas market as the best opportunity to sustain growth; eBay's international markets had more than twice as many Internet users. In terms of market potential, eBay estimated it had less than 10 percent penetration of the combined annual \$30 trillion-plus global merchandise market. International expansion then became the goal.

eBay quickly assembled a program to promote its global strategy: AAA—Acquisition, Activation, and Activity. eBay eventually acquisitioned the leading auction Web sites in 23 countries, mixed the acquisition and activation components in the United Kingdom, Korea, and Hong Kong, and applied all three components in Canada, Germany, and India.

Challenges and Solutions

Skeptics questioned eBay's outlook, deeming its plan of convenient e-commerce worldwide an overwhelming task. It also cited many challenges, among them translation software, the digital divide, cultural attitudes about e-commerce, government regulations, and the pace of international expansion.

Translation Software

Early on, many people zeroed in on the challenge posed by translation software. Developing a global trading community meant that eBay had to let sellers in any country post their auction description in their native language and then rely on software to translate that post into the native language of potential buyers—no matter what language they preferred.

Early editions of translation software struggled to handle the nuances of regional colloquialisms, informal shorthand, and slang—all of which were commonly used to describe items listed on eBay. Although newer software came with memory banks that stored complex sentences to translate them more accurately, many programs simply translated word for word, irrespective of the structural differences between languages.

eBay believed the limitations in translation software were minor setbacks to its globalization strategy. It conceded that translation software was imperfect and admitted that possible nuances, idioms, and secondary meanings created problems. However, translation programs were steadily improving. eBay held steadfast in its belief that the global market was ready for person-to-person auctions, with or without completely accurate translation. Whitman reinforced this stance when she stated, "The great thing about eBay is that this doesn't have to be perfect. This is not diplomatic relations. This is not military secrets. This is trading items between 50 and 100 dollars. Our users have expressed a willingness to work with 'pretty good'—not 'perfect,' but 'pretty good.'"

Steadily, eBay applied increasingly sophisticated software, thereby making it easier to post auctions in more and more foreign markets. Available software let companies cater their Web sites more readily to international markets by automating the translation and localization of content. In eBay's case, that meant that auction pages not only read correctly in local languages but also were worded to conform to local customs.

Moreover, related software upgrades steadily introduced new features such as a vendor-management tool, improved integration with content repositories and formats, better search functionality, and more flexibility in applying security policies, all of which improved the global functionality of eBay's platform.

Government Regulations

Critics noted that government trade regulations would inevitably stymie eBay's global strategy. Many countries outlaw the exportation of native fossils, historical artifacts, plants, and animals. Some countries, such as Cuba, outlaw exportation of any item not sanctioned by the government. In addition, eBay could encounter legal and political hassles if it enabled sellers to export native herbs or medicines, rare currencies, anthropological relics, political memorabilia, or other sensitive goods.

Complicating matters, each country presents unique cultural and legal challenges. For instance, in France it's illegal to exhibit or sell objects with racist overtones. A few years earlier, a French judge ordered Yahoo! to deny Web surfers access to sales of Nazi memorabilia because such items are "an offense to the collective memory of the country."

eBay believed it had a solution. Noting the legal challenge Yahoo! faced in France, eBay stated, "What we are going to do in France is try to help the government by putting up warning signs that say, 'We are a U.S.-based site that does not conform to the rules about Nazi memorabilia.' We're going to bend over backward to work with the French government and French political groups to try to enable a solution that is French. . . . We've taken a 'work really closely, let's be best friends' approach with local governments and political groups."

The Digital Divide

Some say that no matter what eBay trumpets, the world is far from technologically ready for its vision of Web-connected buyers and sellers. Especially ominous is the digital divide—the gap between the haves and have-nots in access to technology. Many countries that eBay is targeting are years, if not decades, away from convenient, affordable Internet access. Rex Bird, CEO of Body Trends, notes, "Guatemala is not going to dig trenches for conventional lines so that villages can be wired to the Internet. It'd be a great project for the Peace Corps to come in and set up a computer with Internet access but it's going to be a very, very slow process."

eBay faces more immediate problems in existing markets. At the end of 2007, India had more than 1 billion people but just over 9 million landline Internet connections. Although many Indians who do not own computers visit cybercafés to browse the Internet, relatively few consumers have credit cards. Many believe China is in a similar predicament.

eBay remains undaunted in finding solutions to enable more people to connect to its sites as well as each other. Chief Financial Officer Rajiv Dutta posits, "Do many of the markets we've entered recently have lower per capita income and lower Internet penetration? Yes, but that will increase. . . . Our management philosophy is to build for the long-term. What's a small portion of the business today may well be a very large percentage in the future."

Cultural Attitudes About E-Commerce

Data suggest that many people, such as those in India, China, and greater Asia, are intrinsically distrustful of e-commerce transactions. For example, a study of cross-cultural comparisons of online information usage, interpretation, and reaction revealed significant differences between a country's culture and uncertainty avoidance. Online participants in high uncertainty-avoidance cultures, such as Japan, exhibit drastic behavioral changes when faced with limited information within an ambiguous decision context compared to those consumers in the same situation in Germany and the United States.

The American origins of eBay pose problems of their own. Nicolas Dufourcq, director of multimedia at France Telecom, said, "Sometimes when you are on an American portal, you feel imprisoned in a family that's clearly not yours." A European user also added that the "global scale of the site appears an arrogant claim to Europeans . . . because of its global approach, the structure of the site is like a maze. Every time a change is made, the site becomes more complex and less self-explanatory. Any near-monopoly—and eBay has become one because of the number of visitors to its site—will eventually be shown the exit by innovative new entries to the market that cater more to local customers."

Because of these differences in cultural attitudes, eBay ceased operations in Japan in early 2002. At the time, Yahoo! Japan held 95 percent of the \$2 billion online-auction market, a feat many linked to their partnership with the local company Softbank. Officially, eBay stated that it found Japanese consumers more interested in new goods rather than used goods or collectibles. Similar events later unfolded in China. In late 2006, eBay announced plans to shut down its main Web site in China and enter into a joint venture with a Chinese company.

Pace of International Expansion

Finally, some suggest eBay's ambition spurred a risky rush to globalize. Difficulties for each acquisition began to arise. Increasingly, eBay had to pay steep premiums to acquire foreign operations. Some analysts doubt that future results will justify the high acquisition costs. eBay believes otherwise, noting the early law of Internet strategy: "Get Big Fast." They predict that by helping transform developing nations into virtual marketplaces with buyers in place eager to snatch up native handicrafts, they will be infusing remote villages with cash that will improve locals' standard of living. Whitman enthused,

It's fascinating. There is a real frontier here that would truly make global trading a reality. You think about the third world, villagers in Guatemala and Africa who have handicrafts to sell, who could list in their currency and their language and sell to the industrialized world. As that seller community makes more money for their town or village, they then have more purchasing power to buy more products and services from the more developed world. . . . Certainly it has the power to transform countries and cities and villages and empower people to make a living in ways they could not before . . . eBay is creating new trade on a global basis that the world has never seen—that's what gets us up in the morning.

Some remain skeptical that eBay can transform the international business marketplace in ways that will create legions of exporters and importers, help impoverished nations, balance the world's supply and demand, and significantly improve the efficiency of the global market. In the back of everyone's mind, though, are the staggering potential of global e-commerce and the stunning performance of eBay's global strategy thus far. Steven Weinstein, Pacific Crest e-commerce analyst, summed it up when he said, "A total transformation may be slightly fanciful. But, then again, look at what eBay did to small business. It certainly transformed that."

No matter what the critics say, Meg Whitman remains undeterred: "The fun thing about eBay is that we're pioneering a whole new marketplace. . . . It's going to be tremendous." ■

QUESTIONS

1. What is eBay's core competency? How does it relate to its chosen strategy?
2. Explain how eBay has decided to configure and coordinate its value chain.
3. Would you characterize eBay's value chain as virtual or real? Why?
4. Consider again your description of eBay's strategy. Is it different from what it was 10 years ago? Why? How might it look in 10 years?
5. What are the implications to the challenges identified in the case regarding eBay's strategy—today and in the future?

SUMMARY

- Managers, as agents of their firms, devise strategies to engage international markets in ways that sustain the company's growth and boost its profitability.
- Strategy is defined as the efforts of managers to build and strengthen the company's competitive position within its industry to create superior value.