

eBay, Inc.: The Online Auction Industry

Anthony E. D'Andrea
St. John's University, USA

Dorothy G. Dologite
Baruch College, CUNY, USA

Robert J. Mockler
St. John's University, USA

Marc E. Gartenfeld
St. John's University, USA

EXECUTIVE SUMMARY

In 1997, Pierre Omidyar, online auction house eBay's founder, drove into Silicon Valley without a business plan, laptop, presentation or even a functional website. However, his concept of a worldwide flea market was so attractive that Benchmark Capital could not resist. In early 2002, eBay, one of the few Internet businesses that has been profitable during the economic slowdown of 2000/2001, had total sales approaching \$1 billion; however, CEO Meg Whitman has promised to increase revenues by more than three times to \$3 billion by 2005. A question for eBay was how to continue to increase revenues in an increasingly competitive market. Expansion was limited outside of new geographic territories, and every market participant was striving for a piece of the industry. The main question to be resolved was how to differentiate eBay from its competition and achieve a competitive advantage within both a short and long-term time frame.

ORGANIZATION BACKGROUND

Pierre Omindyar, a freethinking French national, founded eBay in May 1996. In 1997, he attempted to achieve funding for his fledgling online flea market, eBay, by traveling to the then technology hot bed of Silicon Valley. Benchmark Capital, a venture capital firm with “teams” in Silicon Valley, Europe and Israel, agreed to invest nearly \$7 million into the company. Benchmark Capital specializes on technology-driven companies that seek to create new markets with significant growth potential in the areas of *enterprise software and services, networking equipment and services, semiconductors, mobile computing, consumer services, and financial services*.

In early 2002, eBay, Inc. provided the technology for buyers and sellers to come together to trade items on a worldwide venue. eBay was a U.S.-based dynamic pricing online trading platform located at www.ebay.com. The Company developed a web-based entity that served as an online flea market and as an online alternative to the classified advertisements to buy and sell items. Through its wholly-owned and partially-owned subsidiaries and affiliates, it operated trading platforms in the U.S., Germany, the United Kingdom, Australia, Canada, France, Austria, Italy, Spain, and South Korea. At the end of 2001, eBay’s employees totaled over 1,900 workers worldwide.

Products/Services

eBay pioneered online trading by developing a web-based community in which buyers and sellers were brought together in an efficient and entertaining format to browse, buy, and sell items, such as collectibles, automobiles, high-end or premium art items, jewelry, consumer electronics, and a host of practical and miscellaneous items. In early 2002, the eBay trading platform was a fully automated, topically arranged, intuitive, and easy-to-use service that supported an auction format. Sellers listed items for sale and buyers bid on items of interest in a fixed-price format in which sellers and buyers traded items at a fixed price established by sellers (eBay, 2001). eBay maintained a worldwide platform that consisted of Billpoint, Half.com, eBay International, eBay Motors, eBay Stores, eBay Local Trading, and eBay Live Auctions.

Billpoint

Billpoint was the online payment function for buyers and sellers, owned by eBay. This service, which eBay charged a fee to use, allowed sellers to receive payment for the product electronically from the buyers. The buyer charged the final auction price on their credit card that was paid to Wells Fargo, who in return, paid the seller. This was a secure payment option for buyer and seller allowing them a fast, accurate payment. The seller paid all the fees associated with this payment option. However, many sellers would rather not use this service due to the reduction in the final amount received from the buyer by the fees charged. eBay had a dynamic spectrum of customers that included individual buyers and sellers, small businesses, and even Fortune 100 companies. The advantage of this feature was that it allowed a customer a full service experience where they could bid, purchase, and provide payment for their product all through eBay. Prior to this service, the buyer would pay the seller directly or via another online service. Now, eBay could compete with other online services. Recently, in February 2002, eBay bought the

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