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## eBay Strategic Analysis and Recommendation

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## **Abstract**

This project focuses on an economic analysis of eBay (100+ pages of appendices omitted during scanning, see project 01049 in the filing cabinet).

**eBay Strategic Analysis and  
Recommendation**

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Patdu, Nantachai Phuvasate, Farhad  
Rostami**

**P01049**

# **eBay Strategic Analysis and Recommendation**

**November 29, 2001**

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## 1. Executive Overview:

The Internet has seen its share of success and failures as businesses try to understand how this new medium is going to be used in the 21st century. The eBay corporation has defined itself as not only a player on the Internet but as founders of a new business concept: online bidding and selling for the masses.

Being first to market gives eBay some of the key strengths to make the most of this new medium. The key success factors such as a large customer base and a compelling environment online are allowing eBay to be profitable and be seen as a legitimate business. While large environmental changes in law and technology change the competitive landscape, eBay remains focused on being the largest and best Internet trading site available to a growing group of online users.

However, the low barriers to entry make eBay an easy target for new competitors such as Yahoo and Amazon.com who are currently marketing in eBay's space. Brick-and-mortar retailers and auction houses are attempting to understand this new marketplace where helping a housewife in Indiana trade Pez dispensers online is a profitable business plan. In the future, technological change could make any new business plan successful challenging not only eBay but also any business that doesn't properly scan the competitive landscape.

Current strategy says eBay should focus and grow its customer base through marketing and mergers. To date, the growth of eBay has been amazing with 100%+ increases in sales from year-to-year are expected. However, risks in managing such growth and maintaining the talent that will continue the growth are always on the minds of eBay's management and shareholders. The slowing of this fast growing market will also be of vital concern as the first wave of the Internet revolution washes over the world.

This group recommends that eBay diversify its customer and product base to minimize risks associated with too much reliance on its current product offering. Focusing on how and where the Internet is going to be utilized best will develop new technologies and markets. Alliances with major players inside and outside the internet will allow eBay to market its abilities to new customers as well as give them insight into what the next wave will look like and how to best take advantage of the changing tide of technology. At this point on the growth curve, eBay can become an industry standard or a memory. The execution and deliberate nature of their current and future strategy will determine if they are a Sony or an Atari.

## **2. Current Situational Assessment:**

On January 2001, at eBay's annual board meeting, a sub-team of the board of directors was formed to review eBay's current strategic plan and propose any revisions as necessary. This is a formal exercise that the board performs annually. The sub-team this year consisted of the CEO, the Marketing/Sales VP, the Technology VP, the Chief Financial Officer, and an HR Management Consultant.

### **2.1: eBay Business Overview**

eBay was initially formed in September 1995 and completed its initial public offering in September 1998. eBay operates an online marketplace and acts as the intermediary for buyers and sellers. The online marketplace allows buyers and sellers to buy and sell practically anything and everything. The sale price is determined via a bidding system and the highest bidder owns the right (and obligation) to make the purchase. Items for sale are grouped into hundreds of logical categories for each listed search. Each buyer and seller also accrues "points" and "comments" at the completion of a successful transaction, based on feedback from others involved. This availability of information regarding prior transactions via "positive" and "negative" feedback helps increase the level of comfort for all parties involved in performing business over the Internet. eBay earns (part of) its revenue through a listing fee for all items on sale, as well as a percentage commission for successful transactions.

In addition to eBay.com, the company also both wholly or partially owns and operates a number of other related business units.

- iBazar.com: Online trading business in Europe and Brazil.
- Half.com: Fixed-price online transactions for books, music, movies, and video games.
- Billpoint Inc.: Facilitates online financial transactions.
- Butterfields Auctioneers: Traditional offline fine arts and collectables auction services.
- Kruse International: Traditional offline collection car auction services.

### **2.2: Core Competencies**

The CEO formally opened the session by outlining eBay's strategic intent in the next 5 years. With this in mind, he led the group to examine the company's current capabilities and uniqueness in relation with eBay's future.

1. Excellent relationship with affiliates & partners.
2. Exceptional ability to attract buyers
3. Cohesiveness of its buyer-seller interaction
4. Strong & robust technology platform
5. Outstanding customer support
6. Commitment to its community & to less fortunate/underprivileged people
7. Business focus & market know-how

### **2.3: SWOT Analysis**

From input across all aspects of the business and from marketing to technology development, below are the findings rolled up in a SWOT matrix describing the current state of eBay in its market. As you can see, eBay has significant strengths that can be leveraged into new opportunities. However, eBay does have some weaknesses that it must address in order to ensure its external threats stay in check.

<p style="text-align: center;"><b><u>Strengths</u></b></p> <ul style="list-style-type: none"> <li>▪ Seasoned management team</li> <li>▪ Strong brand name and visibility</li> <li>▪ Huge online user community (22 million +)</li> <li>▪ Variety of goods and services offered</li> <li>▪ Financially stable and consistently profitable</li> <li>▪ Expanded international market</li> <li>▪ Fun, easy to use &amp; efficient Internet commerce platform</li> <li>▪ Fully integrated application into other Internet Sites</li> </ul>	<p style="text-align: center;"><b><u>Weaknesses</u></b></p> <ul style="list-style-type: none"> <li>▪ Limited operating history</li> <li>▪ Inexperience in localizing service to conform to local cultures, standards &amp; policies.</li> <li>▪ Dependence on commercial partner's performance</li> <li>▪ Inability to contend online fraudulent activities</li> <li>▪ Concentrated ownership of the company</li> <li>▪ Dependent on key personnel</li> </ul>
<p style="text-align: center;"><b><u>Opportunities</u></b></p> <ul style="list-style-type: none"> <li>▪ Diversity of online user community</li> <li>▪ Growing fixed-price/service-based market</li> <li>▪ Ever-growing number of users (Domestic &amp; International) seeking broader categories of items</li> </ul>	<p style="text-align: center;"><b><u>Threats</u></b></p> <ul style="list-style-type: none"> <li>▪ Low entry barrier for current &amp; future competitors</li> <li>▪ Intense offline &amp; online competition -Reduced market shares</li> <li>▪ Increasing charges/service fees of search engine partners</li> <li>▪ Competition of internet-&amp; land-based auction business</li> </ul>

## 2.4: KSF's

### 1. Maintain position of the largest online trading forum:

Offering over 8000 product categories, eBay's 22+ million registered users are integral to their current success. 6 million items are offered for sale in dynamic-price (auction-style) format and over 8 million in the fixed-price (Half.com) market. In order to remain a formidable market leader, eBay must continue to increase and maintain active membership focusing attention on its core business while exploring diversification in related areas.

### 2. To provide a compelling trading environment:

eBay's interactive software allows users to dynamically engage in business transactions that would not be possible through the conventional retail market. eBay must remain open to coevolution and progress by the continued addition and maintenance of self-contained features, conveniences, user options, and trading tools.

### 3. Continued maintenance and implementation of trust and safety programs:

Due to the increasing need for online protection, eBay must continue to ensure that any type of fraudulent activity is detected and dealt with accordingly. Through the use of feedback forums and credit card watchdogs (i.e. SafeHarbor™), eBay must be active participates with security orientated programs to uphold consumer confidence.

### 4. To ensure cost-effective, convenient trading:

Uniqueness, great value, and customizable product offering are just a few examples that eBay's ensures cost effectiveness. Operating in a low overhead, 24/7 environment, eBay's unique system architecture make it possible to facilitate transactions in an expedient, reliable, and effective manner.

### 5. Solidification and promotion of a strong and interconnected community:

A loyal, actively involved user community is one eBay's main strengths. My eBay, chat rooms, threaded bulletin/discussion boards, and customer support assistance enables its members to express themselves in whatever appropriate manner they choose. eBay recognizes that promoting a sense of user individuality and influence is directly related to the on-line purchasing experience. Therefore, they must establish an ethical precedent by remaining committed and involved within their on-line community.

Primary Influence Processes (see Appendix for diagram)

## 2.5: Review broad and operating environment

The Marketing/Sales VP had the responsibility of gathering the most updated broad and operating environment.

### **The Broad Environment**

#### Global Economic Forces:

- Potential system failure (highly dependant on electronic infrastructure).
- Rapidly expanding global market (increased demand and reliance).

#### Global Political/Legal Forces:

- Legal and ethical issues regarding user privacy, taxation, freedom of expression, intellectual property, questionable content, validity of products, etc.
- New and existing Internet rules and regulations.
- Growing customer base increases need for on-line fraud and bid manipulation protection.
- Pending and potential lawsuits and litigation (copyright/patent/trademark infringement, fraud/negligence, unfair competition claims, etc.).

#### Sociocultural Forces:

- Ever-changing customer needs and societal trends.
- Communication and transaction barriers interfacing with foreign languages and business/trading customs.
- Volatility of consumer confidence.

#### Technological Change:

- Vulnerable to emerging technological laws (i.e. Digital Millennium Copyright Act) as the number of services and direct competition grows.
- Cost of product development of future features and functionality. Including, but not limited to: Physical hardware (routers, switches etc) new software integration, revisions and updates, etc.
- Maintaining and improving performance and reliability.

### **The Operating Environment**

#### Competitors:

- Traditional department retailers (Sears, Costco, KB Toys, etc.).
- Emerging and established online e-tailers (Amazon.com, Yahoo.com, Buy.com etc.).
- Business to business (Ariba, BidFreight.com ,etc.).

#### Customers:

- Computer literate and value conscious.
- Ranging across wide socioeconomic spectrum (from student to scientist with everyone in between).

#### Financial Intermediaries:

- Electronic transfer of funds through credit card (Paypal (third party) and recent acquisition of Billpoint.
- eBay Direct Pay (an automatic checking account deduction utility).

#### Activist Groups:

- Privacy advocates (concerned about selling of personal information to third parties).
- Membership within TRUSTe program (a non-profit independent organization that audits websites privacy statements and audits their compliance).

#### Local Communities:

- eBay forums, discussion boards, charity/fundraising programs, etc.
- eBay Foundation providing financial assistance to variety of humanitarian causes and relief efforts.

#### Unions:

➤ Externally based “e-unions” such as EUPU (eBay Users Protection Union), an independently operated on-line membership forum that helps vindicate users from slander and misrepresentation.

Government Agencies and Administrators:

➤ Due to the high potential of on-line fraud/bid manipulation and illegal transactions, eBay has implemented an investigational group referred to as Safe Harbor™ to intervene with reported trading infractions, dispute resolution, and general misuse of eBay policy.

Suppliers:

➤ Front-end and back-end software suppliers (Oracle, IBM, etc.).

➤ Costs of general office facility overhead (brick and mortar suppliers).

➤ Electro-optical network infrastructure comprised of extensive array of routers, gateways, switches, hubs, etc from companies such as Cisco, JD Uniphase, Juniper Networks, etc.

## 2.6 Future Threats in the External Environment

The sub-team also brainstormed to generate a final list of future threats in the environment. The Technology VP generated most of the technological threats, the Marketing/Sales VP generated most of the competitive threats, the CFO generated most of the economic threats, and the CEO generated most of the political threats. Everyone had plenty of social threat ideas but the HR consultant was able to summarize the thoughts into two main points.

### Competitive:

New market entrants – There is high potential for new competitors to emerge and offer the same products and services as eBay. This may dilute eBay’s customer base as consumers have more in websites to choose from. Although eBay’s infrastructure for internet commerce is difficult to emulate, it’s core concept of offering on-line commerce is not.

New innovation – There is potential for existing (Amazon.com, Yahoo.com, Buy.com, Ubid.com, etc.) and new competitors to come up with new services and products that differ from eBay’s current offerings. Competitors could also devise new innovations that eBay overlooked or ignored. This could draw away regular and potential eBay customers.

### Technological:

System overload - The reliability of eBay’s technological infrastructure is not 100% guaranteed. If the infrastructure cannot handle increased volumes of usage, service disruptions may occur.

User demands - Desired increases in ease-of-use and features by customers may not be attainable from a technological standpoint thus reducing eBay’s desirability.

Security requirements - The increased sophistication of infrastructure also requires increased security. The advancements in Internet security may not mature at the same rate as infrastructure complexity.

### Social:

Hacking activities - Hacking activities that are not intercepted by eBay can disrupt service to customers and cause security issues and can compromise company and customer information.

Terrorism risk - Current uncertainty in the economy due to recent increases in terrorist activities could decrease consumer confidence, thus decreasing consumption of goods and services.

### Political:

Regulations on for-sale items – Regulations of items that can be sold over the Internet may limit expansion. New ideas for business expansion may be gated by governmental regulations as to what can be sold over the Internet.

Regulations on mergers and acquisitions - Government inquiries into monopolistic practices could hamper expansion possibilities.

International regulations – Regulations overseas could limit foreign expansion. International regulations could limit or block expansion into new markets and reduce eBay's potential for growth.

**Economic:**

Currency fluctuations – Fluctuation of currency may adversely impact future profitability as a weaker U.S. dollar could reduce net profits from overseas sales.

Stock market volatility – Volatility could impact eBay's stock price, thus impacting market capitalization and acquisition power.

## **2.7: Porter's 5 Forces**

The CEO took charge of drawing out the Five Forces of Industry. There was plenty of discussion on the levels of threat as this was a somewhat subjective measure. A diagram of Michael Porter's 5 Forces of Industry is attached in the Appendix, section 3.1.4.

**Potential Entrants (Medium):**

This threat is medium due to the fact that new competitors cannot be easily identified. New "Dot-com" companies can easily startup new websites to compete with eBay's services. Since eBay cannot see a new competitor coming, it is extremely difficult for eBay to directly defend itself against those new entrants. Other than not being able to identify potential entrants, the other threats related to entrants is actually quite low. eBay's large customer base provides a large economy of scale advantage to new startups. This large customer base in turn provides eBay the largest selection of on-line auction merchandise in the world. A new potential entrant cannot possess a large selection because it does not have a large customer base. It also cannot possess a large customer base because it doesn't have a large selection. This "Catch-22" situation makes eBay's economy of scale the biggest barrier to new entrants.

**Threat of Substitutes (Low):**

The threat of substitutes from brick and mortar stores such as Wal-Mart and K-Mart is low. This is also the case for other dynamic style venues such as garage sales and newspaper classifieds. Both the Internet and non-internet commerce customer base is so large that it doesn't directly compete with each other at this point in time. The buyer's propensity to substitute eBay's services with brick and mortar services is low since eBay's sales comprise of mainly used and collectible items whereas brick and mortar stores mainly provide brand new merchandise. The buyer's propensity to substitute will mostly be driven by price but there isn't a direct price competition between eBay and brick and mortar stores. Buyers may also substitute convenience but that is where eBay has the advantage over brick and mortar operations as Internet purchases can be made from home in less time than brick and mortar purchases.

**Suppliers (Low):**

The importance of eBay's volume to its suppliers makes this threat low. The interacting forces here are of cooperation. eBay depends on the reliability of its suppliers to ensure the smooth operation of its website, secure information storage, and problem-free transactions. eBay's suppliers depend on eBay for its long-term business, especially in the current environment where few dot-com companies survive.

eBay does possess some negotiation power over its suppliers as a result of the business that it can provide to its suppliers. Although eBay isn't the sole customer of any of its key suppliers, the volume of eBay's business is quite significant for those suppliers. eBay's suppliers also possess some power over eBay in that the impact and cost of switching over to eBay's operations can be quite large. Since most of eBay's suppliers supply hardware and software that make its operations run, any change in eBay's infrastructure will incur high work-around costs to ensure a seamless transition for its customers.

### **Customers (High):**

The key to eBay's success is the volume of its users. On-line auction buyers want the greatest possible selection and quantity of products. This provides buyers many choices and a better opportunity to secure the lowest price for a product. On-line auction sellers want the greatest possible number of buyers ensuring items for sale are sold quickly and at a good price. Since eBay has the highest volume of users for its services, it is the most successful company for its niche. It is obvious that eBay's success and survival depends on its customer volume, this is why the customer force is rated as high.

### **Industry Competitors (Medium):**

There are many viable competitors that are currently successful dot-com companies. Although their main business is not on-line auctions, their volume of users is what poses the biggest threat to eBay. eBay's success depends on its ability to secure its current customers and its ability to attract potential customers away from other competitors. Brand identity is extremely strong for both eBay and its competitors (non-online) as an on-line auction site. However, its competitors' strong brand names (e.g. Amazon.com, Yahoo!) can draw potential new customers away, as they may be unaware of eBay's volume advantage.

## **2.8: Gap Analysis**

eBay is unique compared to its competitors since it has positioned itself to serve a broad market with a customizable service at a low cost through the use of the latest open technologies. This service offers the greatest customizable product options for the consumer while being the least costly alternative in the current market space. Although eBay has many strengths, eBay needs to continue to build its client base to ensure it maintains its leadership position as the largest online trading forum. Financial and market trends indicate slowing growth patterns in both financial resources and new online users.

Auction houses currently serve a fairly affluent segment that looks for unique and collectible products at high prices. Retailers like Wal-Mart serve a broad market, but pass on their high operating costs through higher prices. The new breed of e-tailers like Amazon.com has provided the same type of value to consumers, but at lower costs. eBay with its unique business model is serving as large of a market as the above three, but with the lowest potential cost, through its product and dynamic pricing offerings. eBay is not only competing with other online trading sites, but also the above broad environment competitors. Therefore, eBay must provide a compelling multi-faceted trading environment for new and existing users.

eBay has minimized its operating costs, distribution/ logistic needs and capital requirements by forming strategic alliances, maintaining an open technology development platform and identifying a business strategy that is focused on using and serving the broad market as a channel. It maintains a low logistical inventory that is focused on providing an arena where the sale of products can occur with minimal costs to a wider range of consumers. Since eBay's stock price is perceived to be inflated, a large drop in stock value will undermine confidence of stakeholders and eBay's ability to be an ongoing concern.

## **2.9: Critical Issues**

Below are the rankings of the critical issues in order of priority facing eBay. Diagram 3.1.4 in the appendix quantifies the ratings in more detail.

1. Concern of slowing core business (dynamic pricing)
2. Overvalued stock (very high current P/E ratio)
3. Threat of increased competition
4. Dependant on electronic infrastructure
5. Challenge of increasing on-line membership
6. Ensuring fraud protection and user confidence

## 2.10: Cultural Analysis

### External:

In the short time they have existed (since 1995), eBay have established an unprecedented on-line presence rising to a level of instant recognition that few on-line companies have known. Much of this can be attributed to the degree in which eBay influenced our society. eBay has become an undisputed cultural icon that seemingly reflects the society that has made it. A few years ago a man had offered his right kidney up for auction. Perhaps even more alarming is that he received bids in excess of 1 million dollars for such a macabre "item"! Of course, eBay has strict rules on what constitutes as a legitimate item and thus prevented such a transaction from taking place but bizarre examples seem only sure to continue. The pervasive aura of eBay is felt within off-line culture as well. Go to the flea market and buyers whisper, "I bet I can sell this on eBay for ten times as much." Walk down the aisle in your office and see how many PCs are tuned to eBay. eBay has gained what all business ventures covet: widespread brand recognition. It's a place to shop, a place to be entertained, a place to hang out. The world has bought into the eBay Way, and it's made them an online giant. But with eBay having achieved such "pop culture" status, being on the tips of our tongues and on the front pages of our papers, does that mean they should clean up their act? Surely those ill-advised auctions for surface-to-air missiles and alien fetuses will smudge eBay's good name...won't they? Curiously enough, it seems to be this inherent and spontaneous outrageousness that has been a large part of what has made eBay such a household name. For the same reason we can't resist turning back to look at a roadside accident and can't miss this week's episode of "When Good Times Go Horribly Bad", neither can we resist checking out the latest shock-auction where a 17-year-old boy is offering up his virginity to the highest bidder (male, female, it doesn't matter). eBay has effectively tapped into our mass, sometimes crass society. In fairness, it is not all so strange. In a pure sense, eBay has a highly effective business model that brings together buyers and sellers every day. Yet, at the same time, it's a sort of sideshow that's come to town. It's better than a box of Cracker Jacks; you never know what you'll find inside and it's not necessarily going to be the usual, recognizable garden variety. It's practically "hip" with the online generation. It's the place where the frequently hard-to-please, often cynical cyber-culture has come to roost, sometimes just to look but often to take a stab at auctioning off anything imaginable for fun, profit, or just a little attention. It's no joke—eBay is a modern-day success story. And I guess that leaves a few more questions to be answered. What will be up for auction next? Will eBay dare to squelch the kooky element that has brought it such recognition?

### Internal:

Even in today's diversified workplace, it is rare to find a woman in positions of executive control. President and CEO, Meg Whitman has bucked these patriarchal confines of high management. Taking a progressive approach into developing the work ethic and culture of eBay, she strives to ensure a fun, open and trusting environment. Focusing on big-picture objectives and key priorities she also helps address the needs and expectations of the user and their experience. One look through the management structure of eBay and you will certainly find an eclectic, expressive group of people atypical of the corporate management archetype. For instance, it is not everyday that one sees a founder and chairman of a multi-million dollar company posing with a gigantic Pez dispenser. Complete with casual attire and sporting a ponytail, Pierre Omidyar glibly explains his most valuable contribution to eBay was "having a really good idea". The unconventional format continues with many other individuals as well. For instance, Senior Vice President of Strategic Planning and Development Gary Bengier seems quite proud of the fact that he salvaged and

restored a full-sized Captain Picard figure from a dusty warehouse. This candor of relaxed comfortability and offbeat humor appears prevalent within the eBay environment but lest one get a laissez-faire impression about their operating environment. Inside lays a specialized and informed group of dedicated individuals who have the experience and education to implement the corporate strategy, vision, and discipline necessary for their continued success.

## 2.11: Current Company Strategic Plan

The current eBay Strategy is to provide the most compelling commerce platform on the Internet to help anyone buy or sell practically anything in the world. This is going to be done through strategic acquisition of other companies broadening the trading platforms available to customers, adding more features to the current platform, expanding the value-added services, diversifying geographically by entering international markets, and b being a good corporate citizen across cultures and national boundaries.

The current strategy presents several risks (CONS).

- eBay relies on the fact that the Internet will continue to grow an as a sales channel both in the United States and abroad. While this is certainly possible, several factors may slow the growth of the 'Internet revolution'.
- Expansion through acquisition may dilute eBay's ability to maintain profitability and operational effectiveness. Management and employee retention issues could make investments in other companies wasted capital. Expansions into unrelated business in which eBay has no management experience could damage or nullify any strategic acquisition.
- Transactions across the Internet could be harmed by a criminal activity. The stealing of credit card numbers or other forms of payment may increase regulation and damage customer confidence to the point where trading over the Internet is no longer profitable.
- Low barriers to entry may give rise to new competitors who could replace eBay on the Internet as the preferred online trading platform. Additionally, new competitors in local areas may compete with eBay by providing a brick-and-mortar trading solution.

However, eBay's current strategy has these strengths (PROS).

- The company has a strong management team that understands the market in which they operate. Being one of the first true Internet businesses, eBay has a management team that understands the operating environment in which they compete.
- The company has one of the strongest brand names on the Internet. By being first to a new market, eBay has become the standard expectation for people who trade goods across the Internet.
- By being first, they have a large (and growing) customer base of over 22 million users and a loyal core of traders who use eBay as their personal marketplace.
- The company is one of the few Internet survivors. They are profitable and maintain operating cash flow.
- They provide a variety of services both in the United States and internationally that provides a fully integrated solution for customers who want to trade items over the Internet.

## 2.12: Set Goals for the Company

### Goals for eBay

Goal	3-5 Years	End of 1 <sup>st</sup> Year	Element does this Support
Maintain customer growth	100 million registered users	Maintain 100%+ registered customer growth	Being first to market and maintaining brand dominance. (Strong)

Diversify through Acquisition	Acquire 5 new trading platforms a year. This will increase our market presence as well as options for customers.	Acquire at 3-5 new companies that will increase our services to customers	Diversify geographically and across technology platforms (Strong)
Maintain Employee Morale and Commitment	Keep turnover to less than 10% in newly acquired companies and less than 5% overall	No more than 10% turnover this year.	Maintain value of acquisitions by keeping talented and qualified personnel. (Strong)
Maintain Positive Earnings and Cash Flow	Secure enough equity to weather a 2-3 year downturn in the economy as well as Internet market space.	Maintain positive earnings and cash flow. Store enough cash for one-year downturn.	Financial Stability (Strong)

### 2.12.1 Balanced Score Card/ Success Metrics

#### **Balanced Scorecard for eBay**

A balanced scorecard for eBay should include items that are both financial and non-financial. However, all the metrics should be connected to the company strategy and somehow reduce risk. The following metrics should be used to evaluate each business unit for eBay.

- Positive cash flow and earnings – each business unit should show a positive cash flow and a plan for positive earnings. If a business unit shows negative cash flow, a plan for positive cash flow should be reviewed and agreed upon by management.
- Low turnover of employees and management – If the company plans to grow through acquisition, it needs to maintain talented managers and employees. This industry has low barriers to entry that makes this key to future growth.
- Customer Growth – Growing the customer base is key to increase sales, earnings, and cash flow for eBay. This is done by providing the best service to customers and having a highly recognizable and preferred brand name.
- Diversify through acquisition – The company growth is based on finding new niche markets and exploiting any new opportunity for gaining dominance on the Internet. By ensuring that eBay offers a variety of services to its many customers, they can prevent new entrants and substitute platforms from challenging its current dominate market position.

### **2.13: Alternative Future Strategies**

Several options exist for eBay looking forward to bolster its competitive position in the marketplace. These options are derived by addressing the critical issues of eBay by building upon the strengths, eliminating the weaknesses, and seizing the opportunities that will enable eBay to secure a more lucrative position in the future. The following are strategic alternatives that would meet these needs:

#### **1. Alliance Focus/ Decentralization**

One of eBay's strengths has been focusing on strategic alliances along non-core competency lines. This area has proved that eBay is the forefront of technology while sharing the risk across multiple stakeholders. This alternative would be a focused effort across all aspects of the business in areas that would benefit from this external perspective. Additionally, the business will begin to shed its dependence on an electronic infrastructure since this task may be outsourced. Some areas that alliances may address may exist in the on-line safety and fraud arenas where other companies currently maintain significant competitive advantages.

Additionally, the current organization is very centralized allowing for a small organization to make decisions that can span all aspects of the business. However with new growth, the organization may want to look at decentralizing the business into SBU's to allow for more nimble decision making across all service lines. Potential internal competition may arise that would allow for continued innovation and growth which will translate to a leaner operations, thus improving the financials of the company, a current strength.

## 2. CRM Development

eBay has built a business that is intimate in providing customizable services to all of its diverse customers. This proposition will stress finding new ways to deliver value to new markets and provide far superior services to existing ones. This in turn should increase the company's focus in growing the on-line membership to new levels- a key success criteria for the growth of the business.

## 3. Marketing Push

eBay currently maintains a leading position in the minds of its customers by exhibiting a solid presence in advertising and marketing campaigns. This option would build upon this strength by finding new sales channels and techniques allowing the increase of its on-line membership.

## 4. Product Line Diversification

Currently, eBay maintains a fairly dominant position in the variable pricing on-line auction space. A variation of this would be for eBay to pursue complete service line diversification allowing for new products to enter the marketplace. With this change, the company can see how to segment its offerings providing the best fit with its strategic mission while searching for new ways to reduce competition. Several ways to approach this would be to attack current high margin competitors like Sotheby's and other high volume competitors like Amazon (shown in Appendix Figure 3.1.6 Product Market matrix). However, this strategy deals with growing the business into non-core areas which may one day turn to be eBay's core business.

In the appendix a line matrix (figure 3.1.10) summarizes the above options by correlating the alternatives to the critical issues facing eBay.

## 2.14: Future Strategy Recommendation/ Conclusion

Based on the critical issues rating, our team recommends that we address the top three critical issues by focusing on strategic alliances and diversifying eBay's current product line.

Recommended Strategy	Timeframe	Critical Issue
Product Line Diversification	3-5 years (renewal)	<ul style="list-style-type: none"> <li>➤ Concern of slowing core business</li> <li>➤ Threat of increased competition</li> </ul>
Alliances/ Decentralization	0-2 years	<ul style="list-style-type: none"> <li>➤ Overvalued stock</li> </ul>

The recommendation we would propose includes a balance of short-term and long-term efforts along these lines. eBay should immediately pursue projects that focus on bolstering current and developing new strategic alliances. By building on current alliances, eBay can be positioned to leverage their network to level current valuations of their space by setting a baseline against different industries. This efforts can be launched immediately and should be renewed as market changes dictate, typically 0-2years.

A larger scale effort that can be implemented immediately, but will require a more sweeping change would be to pursue a product line diversification strategy. New technologies will be created while new

market opportunities will need to be identified, before validating its effectiveness. The product market matrix- figure 3.1.9, describes new areas where eBay may be able to realize significant opportunities. However, typical of new product launches the timeframe for this would be within the 3-5 year mark.

Nonetheless, the risk of these strategies is somewhat limited, since eBay can utilize its current strengths to test and grow the market with new offerings in real time.