

REAL WORLD CASE 1

eBay Inc.: Managing Success in a Dynamic Online Marketplace

It began as a trading site for nerds, the newly jobless, homebound housewives, and bored retirees to sell subprime goods: collectibles and attic trash. But eBay (www.ebay.com) quickly grew into a teeming marketplace of 30 million, with its own laws and norms, such as a feedback system in which buyers and sellers rate each other on each transaction. When that wasn't quite enough, eBay formed its own police force to patrol the listings for fraud and kick out offenders. The company even has something akin to a bank: Its PayPal payment-processing unit allows buyers to make electronic payments to eBay sellers who can't afford a merchant credit card account. "eBay is creating a second, virtual economy," says W. Brian Arthur, an economist at think tank Santa Fe Institute. "It's opening up a whole new medium of exchange."

eBay's powerful vortex is drawing diverse products and players into its profitable economy, driving its sellers into the heart of traditional retailing, a \$2 trillion market. Among eBay's 12 million daily listings are products from giants such as Sears Roebuck, Home Depot, Walt Disney, and even IBM. More than a quarter of the offerings are listed at fixed prices. The result, says Bernard H. Tenenbaum, president of a retail buyout firm, is "They're coming right for the mainstream of the retail business."

So what started out as a pure consumer auction marketplace, is now also becoming a big time business-to-consumer and even business-to-business bazaar that is earning record profits for eBay's stockholders. And as the eBay economy expands, CEO Meg Whitman and her team may find that managing it could get a lot tougher, especially because eBay's millions of passionate and clamorous users demand a voice in all major decisions. This process is clear in one of eBay's most cherished institutions: the Voice of the Customer program. Every couple of months, the executives of eBay bring in as many as a dozen sellers and buyers, especially its high-selling "Power Sellers," to ask them questions about how they work and what else eBay needs to do. And at least twice a week, it holds hour-long teleconferences to poll users on almost every new feature or policy, no matter how small.

The result is that users feel like owners, and they take the initiative to expand the eBay economy—often beyond management's wildest dreams. Stung by an aerospace downturn, for instance, machine-tool shop Reliable Tools Inc., tried listing a few items on eBay in late 1998. Some were huge, hulking chunks of metal, such as a \$7,000 2,300-pound milling machine. Yet they sold like ice cream in August. Since then, says Reliable's auction manager, Richard Smith, the company's eBay business has "turned into a monster." Now the Irwindale (California) shop's \$1 million in monthly eBay sales constitutes 75 percent of its overall business. Pioneers such as Reliable prompted eBay to set up an industrial products marketplace in January that's on track to top \$500 million in gross sales this year.

Then there is eBay Motors. When eBay manager Simon Rothman first recognized a market for cars on eBay in early

1999, he quickly realized that such high-ticket items would require a different strategy than simply opening a new category. To jump-start its supply of cars and customers, eBay immediately bought a collector-car auction company, Kruse International, for \$150 million in stock, and later did a deal to include listings from online classifieds site, AutoTrader.com. Rothman also arranged insurance and warranty plans, an escrow service, and shipping and inspection services.

This approach worked wonders. Sales of cars and car parts, at a \$5 billion-plus annual clip, are eBay's single largest market. That has catapulted eBay in front of No. 1 U.S. auto dealer AutoNation in number of used cars sold. "eBay is by far one of my better sources for buyers," says Bradley Bonifacius, Internet sales director at Dean Stallings Ford in Oak Ridge, Tennessee.

And for now, the big corporations, which still account for under 5 percent of eBay's gross sales, seem to be bringing in more customers than they steal. Motorola Inc., for example, helped kick off a new wholesale business for eBay last year, selling excess and returned cell phones in large lots. Thanks to the initiative of established companies such as Motorola, eBay's wholesale business jumped ninefold, to \$23 million, in the first quarter.

As businesses on eBay grow larger, they spur the creation of even more businesses. A new army of merchants, for example, is making a business out of selling on eBay for other people. From almost none a couple of years ago, these so-called Trading Assistants now number nearly 23,000. This kind of organic growth makes it exceedingly tough to predict how far the eBay economy can go. Whitman professes not to know. "We don't actually control this," she admits. "We have a unique partner—millions of people."

Case Study Questions

1. Why has eBay become such a successful and diverse online marketplace? Visit the eBay website to help you answer, and check out their many trading categories, specialty sites, international sites, and other features.
2. Why do you think eBay has become the largest online/off-line seller of used cars, and the largest online seller of certain other products, like computers and photographic equipment?
3. Is eBay's move from a pure consumer-to-consumer auction marketplace to inviting large and small businesses to sell to consumers and other businesses, sometimes at fixed prices, a good long-term strategy? Why or why not?

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