



Business Case Research Report

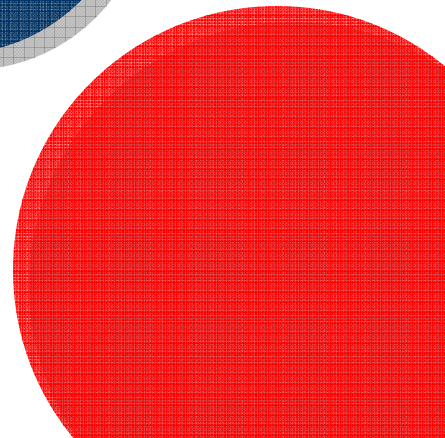
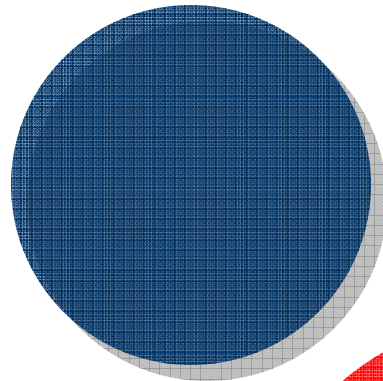
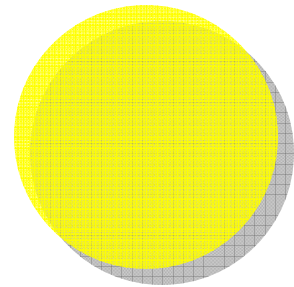
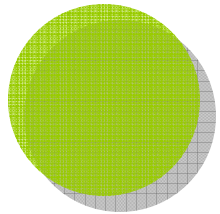


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1. What is eBay? - Introduction

eBay is The World's Online Marketplace®, enabling trade on a local, national and international basis. With a diverse and passionate community of individuals and small businesses, eBay offers an online platform where millions of items are traded each day. The eBay community includes more than a hundred million registered members from around the world. People spend more time on eBay than any other online site, making it the most popular shopping destination on the Internet.

Founded in September 1995, eBay is The World's Online Marketplace® for the sale of goods and services by a diverse community of individuals and small businesses. Today, the eBay community includes more than a hundred million registered members from around the world. People spend more time on eBay than any other online site, making it the most popular shopping destination on the Internet. eBay pioneers communities built on commerce, sustained by trust, and inspired by opportunity. eBay enables ecommerce on a local, national and international basis with an array of websites – including the eBay Marketplace, PayPal, Kijiji, Rent.com and Shopping.com – that bring together millions of buyers and sellers every day.

At any given time, there are approximately 60 million listings on eBay worldwide, and approximately 5 million listings are added per day. eBay users trade in more than 50,000 categories including collectibles, antiques, sports memorabilia, computers, IT and office, art, antiques, toys, dolls, stamps, comics, magazines, music, pottery, glass, photography, electronics, jewellery and gemstones. eBay provides an international platform where practically anyone can trade practically anything.

eBay India (formerly Baazee.com) launched in India in 2000 & has become one of India's leading online shopping destinations with over 2.3 million unique visitors in December 2004 (Source: Web Trends). Although eBay is a global company, eBay.in offers a trading platform tailored to the unique needs of Indians. The eBay community consists of passionate Indians as well as International buyers and sellers trading in a variety of goods.

1.1 *eBay's mission*

eBay's mission is to provide a global trading platform where practically anyone can trade practically anything.

1.2 *eBay's Marketplace*

On an average day, there are millions of items listed on eBay. People come to eBay to buy and sell items in thousands of categories from collectibles like trading cards, antiques, dolls, and house wares to practical items like used cars, clothing, books and CDs, and electronics. Buyers have the option to purchase items in an auction-style format or items can be purchased at a fixed price through a feature called Buy It Now.

People from all over the world buy and sell on eBay. Currently, eBay has local sites that serve Australia, Austria, Belgium, Canada, China, France, Germany, Hong Kong, India, Ireland, Italy, Malaysia, the Netherlands, New Zealand, Poland, the Philippines, Singapore, South Korea, Spain, Sweden, Switzerland, Taiwan, the United Kingdom, and the United States. In addition, eBay has a presence in Latin America through its investment MercadoLibre.com.

eBay offers a wide variety of educational tools, features, and services that enable members to buy and sell on the site quickly, safely, and conveniently. These services include online payments by PayPal, tips on safe trading, and the Developers Program for community members who would like to develop their own technology solutions

1.3 *EBay's Community*

eBay has created a place called communities where people can come together, Exchange ideas. Share experiences and expand their own businesses. It makes their users feel like they're part of the family. The eBay Community is made up of more than 100 million people around the world who buy and sell in the eBay marketplace. Their users include individual buyers and sellers, small businesses, and even enterprises. Some features and resources that help eBay facilitate interactions among members are news which are updated on a regular basis, discussion board, chat rooms etc.

1.4 *Few Facts about eBay*

- One of the **largest items ever sold** was a World War II submarine, sold by a small town in New England that decided it did not need the historical relic anymore.
- One of the **largest items ever to be put up** to auction and not sold was a decommissioned aircraft carrier. The auction was placed by an anonymous seller from Brazil on eBay Motors.
- **Prohibited Items** on eBay are tobacco, alcohol, bootleg recordings, firearms and ammunitions, dirty used clothing, human parts and remains.

1.5 *eBay Executive Team*

Beth Axelrod	Senior Vice President	Human Resources
Matt Bannick	President	eBay International
William C. Cobb	President	eBay North America
John Donahoe	President	eBay Marketplace
Rajiv Dutta	Chief Financial Officer	
Michael Jacobson	Senior Vice President and General Counsel	
Jeff Jordan	President	PayPal
Alex Kazim	Senior Vice President	New Ventures
Pierre Omidyar	Founder and Chairman of the Board	
Scott Thompson	Senior Vice President and Chief Technology Officer	PayPal
Maynard Webb	Chief Operating Officer	
Meg Whitman	President and CEO	

2. The Rise of eBay -- Evolution

2.1 History of eBay

eBay was founded in Pierre Omidyar's San Jose living room back in September **1995**. It was from the start meant to be a marketplace for the sale of goods and services for individuals.

In **1998**, Pierre and his cofounder Jeff Skoll brought in Meg Whitman to sustain the success. Meg had studied at the Harvard Business School and had learned the importance of branding at companies such as Hasbro.

Meg culled her senior staff from companies such as Pepsico and Disney, created an experienced management team with an average of 20 years of business experience and built a strong vision for the company -- that eBay is a company that's in the business of connecting people, not selling them things. They quickly shed the image of only auctioning collectibles and moved into an array of upscale markets where the average sale price (ASP) is higher. ASP is a key metric in determining eBay's transaction fees, so increasing the ASP became an important item. By forging partnerships with namebrands such as GM, Disney and Sun, eBay has managed to do exactly that. Sun has sold \$10 million worth of equipment and it now lists between 20 and 150 items per day.

eBay created one of the first Internet brands that has both attained and sustained profitability, gaining recognition by Wall Street as a solid "blue chip" company. Transaction liquidity, driven by new member growth, repeat transactions, and increasing dollar value per transaction, have all been fundamental drivers in its success. As the first Internet auction model, it was a disruptive technology, bringing Internet efficiencies to discovery and fulfillment. One could say that eBay legitimized the use of the flea market in business. Amazon.com, Priceline, and Napster also created disruptive business models, but at a cost. The differentiator with eBay is the active role of their members in an online auction portal, better termed as "marketplace", which provides personal satisfaction; win, lose, or draw. The personal thrill of participation was often an addictive enjoyment. The primary benefit provided by eBay was the answer to the "discovery" issue in the model pyramid (PTP) of the Value Framework™, leading to the phrase "find it on eBay". The success story of eBay is now told in strategy deployed, managed, and evolved

2.2 Strategy Deployed

The legend of how eBay began - a California computer programmer building a website for his girlfriend, a Pez collector, looking for other collectors to trade with, is actually a myth. An eBay employee invented the tale to attract publicity for the new company. But the real story about eBay's beginning is no less interesting. In 1995 Pierre Omidyar decided to build a frictionless electronic marketplace, a place where buyers and sellers would have equal footing in negotiating power. If all participants had identical information and a range of opportunities for purchase, items would sell at exactly the point where supply crossed demand. Thus began the process of "disintermediation", where the Internet would eliminate the middleman. Sellers had instant and direct access to an enormous retail market, and buyers to an "apparent increase in supply".

eBay's original name was AuctionWeb, with the goal of replacing classified ads. Sellers would post an item with a minimum price, and if more than one buyer was interested, the true market value would be found. eBay was a "market maker" rather than an e-tailer, as it performed the role

of aggregating buyers and sellers in an online venue. In strategy deployed, eBay would make its money from a nominal listing fee paid by the seller, and a small percentage of the selling price.

While disintermediation was at the time a new and novel idea built on the technical architecture of the Internet, it wasn't Omidyar's principal goal. eBay's founder intended to create an online community to replace the neutral electronic marketplace. In strategy managed and evolved, eBay's continual focus on user participation and satisfaction drove the formation of a thriving eBay community.

eBay began life in 1995 as a consumer auction portal, being mislabeled as C2C, when actually it was C2A2C. The application, however, was built on a fragile custom code, which all too often failed for hours, stranding transactions and users alike. eBay brought a disruptive change into auction and classified business models, bringing Internet technologies and efficiencies to a potential market of over 50 million users. eBay became an overnight sensation, partially because of the "thrill factor" experience it brought to bidders who had never participated in an auction before.

Selling Pez dispensers, and later Beanie Babies, was the overnight sensation that launched eBay into visibility on the Internet stage, and starting life out in the consumer arena as a portal was a logical first step. Building it out on custom code, par for the course in 1995, was a strategy that brought much grief to eBay, as the all too often collapse of its trading end would often bring hours of outage.

The Yahoo like simplicity of the user interface and directory, still present today, presented a friendly face to would be sellers and buyers alike. eBay, by solving the discovery and negotiation elements of process, and by guaranteeing performance with strict user standards, brought the trust needed to extend the auctions to an online environment. From a consumer-oriented marketplace, eBay would carefully "manage" their success into larger marketplaces, seeking greater transaction liquidity through strategic partnerships.

2.3 Strategy Managed

The success story of eBay is one of managing strategy, alliances, and performance, especially with regards to growth into new markets. Early in the history of eBay it was apparent that immediate success of an Internet auction portal would quickly drive new user growth and activity beyond what the application infrastructure could handle.

eBay realized the value of adding performance to their C2A2C engine for flawless process execution, and became extremely efficient on the process face of the model pyramid (PTP [Process/Transaction Types/Participants]). Repeat use by buyers and sellers alike was key to member growth as well as "repeat transactions". In addition to the PTP element of auctions, eBay also realized the power of passive knowledge in their "information space". So did many local law enforcement agencies, routinely combing the archives of eBay transactions for evidence to arrest and prosecute.

eBay was rare among Internet firms in the late 1990s in focusing on transaction liquidity as a metric for monetizing member value. Immediately Wall Street differentiated eBay as having a profitable revenue model, creating real value for shareholders as well as funding growth. Throughout late 1999 through 2002, eBay grew 50% year over year in member size, transaction volume, and revenue booked on transaction value. Unlike most Internet IPOs that launched and

immediately skyrocketed only to plummet 18 months later, eBay has maintained an average share price of \$50 after the market collapse, down only 50% from its high of \$100.

Significant growth occurred through the management of acquisitions and alliances. Presence in TekSell.com and creating eBay Motors helped them move quickly into high value transactions more characteristic of B2B than B2C. eBay's purchase of Butterfield and Butterfield (a mistake) and its alliance with Sotheby's is its way of crowning itself "King of the Collectible Space". With the Butterfield and Butterfield acquisition, eBay bought inventory (and a on-ground operation) as well as a brand. Operating a physical store presence is not strategically where the company was going. Lessons learned from Butterfield and Butterfield reshaped strategy in expansion through acquisition.

The acquisition of PayPal was consistent with eBay's strategy to acquire and manage technology and services that helped it build a more robust and complete marketplace infrastructure. Although a competing technology was created (BillPoint), it never gained the momentum that PayPal did. eBay essentially "bought a business model" that was congruent with their ability to capture value from consumer transactions. Napster missed this entirely in their ill-fated evolution.

eBay eventually realized that it needed to manage its strategy to simply and consistently be the best practice in marketplaces. Rather than develop specialized expertise in the marketplace domain, eBay would enter new markets using its marketplace engine plus domain expertise from alliances. Managing this strategy allowed eBay to become the ultimate self-replicating marketplace.

2.4 Strategy Evolved

eBay.com became the Internet success story through profitable growth, solid earnings, and respect by Wall Street as a mainstream blue-chip company. eBay attained marketplace status, evolving from an "auction portal", through a combined strategy that included performance and an "almost" flawless experience for buyers and sellers, careful brand extension through alliances, and extending business models from C2A2C to B2M2C. They also extended their reach in the payment arena by acquiring PayPal, replacing their internally developed BillPoint. From an evolutionary perspective, eBay's goals should continue to be:

- Focus on transaction liquidity
- Become best in class through alliances and acquisitions in key vertical and niche markets
- Develop an Internet marketplace platform for self-evolving markets

eBay built upon the success of its marketplace engine with almost flawless process execution, building a platform for self-evolving markets, including automobiles, computers, and high-end collectables. eBay should consider adding alliances with financial institutions including banks to provide loans and short-term bridge financing for high value consumer and business transactions. Autos would be a prime area for financial services and alliances. Profits from loans would provide a recurring revenue model for eBay, and create a "full-service" brand. Profits from financial services would be most lucrative in the B2B space.

Active e-business marketplaces promise the value of "process knowledge", a term describing how a marketplace could monitor discovery, negotiation, and satisfaction components of PTP. Over time, "best fit" solutions would become apparent, helping define successful paths for complex queries through business marketplaces with tens of thousands of suppliers. While the Internet bust dampened the projected marketplace growth, the goals of using data mining tools to capture

abstract business intelligence continue. eBay would benefit by integrating sophisticated data mining tools to create the "Semantic Marketplace" modeled after the current activities of the World Wide Web Consortium to build the Semantic Web.

Fostering community and adding marketplace intelligence are critical components in strategy evolution. Fostering community built the human component of the eBay community that propelled it forward with 50% annual member growth. eBay members had a "My eBay" page that served as a control panel for posting their interests and monitoring session activity. eBay created a "mentoring" program to help new users navigate the nuances and complexities for mastering participation in its auction marketplace. A community forum supported the new and seasoned eBay members with dialog forum, events, and chat, charity venues, and eBay values. The early days of eBay's press were often filled with stories of auctioning organs and other sundry items. eBay coming of age included a more active role in monitoring marketplace activities. By fostering a vibrant community, congruent with ideology and values, eBay can continue to cement the three components of successful portals; community, content, and commerce.

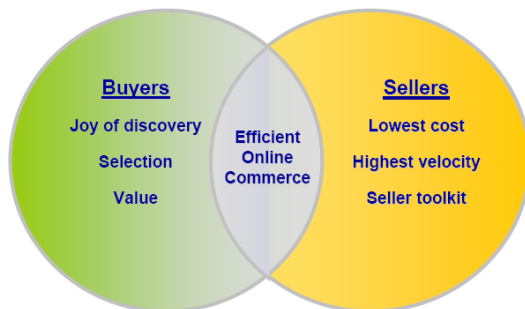
2.5 Acquisitions

- **In May, 1999**, eBay acquired the online payment service **Billpoint**, which it shut down after acquiring Paypal.
- **In 1999**, eBay acquired the auction house **Butterfield & Butterfield**, which it sold in 2002 to Bonhams.
- **In 1999**, eBay acquired the auction house **Alando** for \$43 million, which changed then to eBay Germany.
- **In June, 2000**, eBay acquired **Half.com**, which was later integrated with the eBay Marketplace.
- **In August, 2001**, eBay acquired **Mercado Libre, Lokau and iBazar**, Latin Americas auction sites.
- **In July, 2002**, eBay acquired **PayPal**, for \$1.5 billion in stock.
- **On July 11, 2003** eBay Inc. acquired **EachNet**, a leading ecommerce company in China, paying approximately \$150 million in cash.
- **On June 22, 2004**, eBay acquired all outstanding shares of **Baazee.com**, an Indian auction site for approximately US \$50 million in cash, plus acquisition costs.
- **On August 13, 2004**, eBay took a 25% stake in **craigslist.org** by buying out an existing shareholder who was once a craigslist employee.
- **In September 2004**, eBay moved forward on its acquisition of Korean rival **Internet Auction Co. (IAC)**, buying nearly 3 million shares of the Korean online trading company for 125,000 Korean won (about US\$109) per share.
- **In November 2004**, eBay acquired **Marktplaats.nl** for €225 million. This was a Dutch competitor which had a 80% market share in the Netherlands, by concentrating more on small ads than actual auctions.
- **On December 16, 2004**, eBay acquired **rent.com** for \$30 million in cash and \$385 million in ebay stock.
- **In May 2005**, eBay acquired **Gumtree**, a network of UK local city classifieds sites.

3. How eBay does IT?

3.1 eBay Business Model

The beauty of eBay's business model is that it brings millions of people together to provide a service unavailable anywhere else. That may seem standard on the Internet, but it actually isn't. Most sites are providing services that offer little advantage over the traditional mediums of contact (TV, radio, magazine, etc.) and that capitalize very little on the unique characteristics of *mass communication*. eBay has built an online person-to-person trading community on the Internet, using the World Wide Web. Buyers and sellers are brought together in a manner where sellers are permitted to list items for sale, buyers to bid on items of interest and all eBay users to browse through listed items in a fully automated way. The items are arranged by topics, where each type of auction has its own category.



Think of it in horizontal and vertical terms. eBay features an extremely horizontal business model. They enable transactions and communication *between* millions of people. They essentially propose that individuals will get the best service out of a free-market environment where status as an expert is earned, not bestowed.

What is now happening is that eBay is providing a platform for hundreds of other businesses to reach buyers around the planet. Rather than being the one centralized business, eBay is giving its users access to a world of opportunities. And, actually, that's the whole purpose of the Internet -- to provide worldwide value through decentralization. It's a new form of interaction and of business, not merely a distribution for new traditional-media-like companies to publish at their readers.

eBay has both streamlined and globalized traditional person-to-person trading, which has traditionally been conducted through such forms as garage sales, collectibles shows, flea markets and more, with their web interface. This facilitates easy exploration for buyers and enables the sellers to immediately list an item for sale within minutes of registering.

3.1.1 eBay Revenue Model

Browsing and bidding on auctions is free of charge, but sellers are charged two kinds of charges:

- When an item is listed on eBay a nonrefundable **Insertion Fee** is charged, which ranges between 30 cents and \$3.30, depending on the seller's opening bid on the item.
- A fee is charged for **additional listing options** to promote the item, such as highlighted or bold listing.
- A **Final Value** (final sale price) fee is charged at the end of the seller's auction. This fee generally ranges from 1.25% to 5% of the final sale price.

eBay notifies the buyer and seller via e-mail at the end of the auction if a bid exceeds the seller's minimum price, and the seller and buyer finish the transaction independently of eBay. The binding contract of the auction is between the winning bidder and the seller only.

3.1.2 Salient Features of eBay

- eBay has a very attractive retailing model because it does not carry any inventory. That's the greatest risk for retailers. The loads of unsold stuff sitting on shelves and in warehouses that costs money to carry while it loses money in value. A nightmare, the deathblow for many retail companies. eBay doesn't carry inventory. Those who list stuff on the service for sale bears all the inventory carrying costs, and this is an enormous benefit for the company.
- Second, consider that eBay is successfully building its business without needing to raise capital. Right now, the company has \$31 million in cash and no long-term debt. It gets all the benefits of having savings locked away, earning interest, positioned for future investment. This is precisely the opposite of Donald Trump, with over \$2 billion in debt at 13% interest. Ooof. Add to it the stagnation in customer growth, and you'll be very close to understanding why David is successfully short The Donald in the Rule Breaker Portfolio.
- And finally, because eBay is nothing more than a series of software applications placed on servers, the actual cost of doing this business is extremely low -- certainly much, much lower than the cost of Amazon running its business. eBay does not buy products which it then must package and sell. Instead, eBay facilitates all of the material costs to its vendors. An amazingly wonderful business model; almost too good to be true.

The net result of this is gross margins above 85%. eBay has to invest in software programming, in server technology, and in customer service (a cost that is on the rise for them), but it doesn't have to have factories using parts to build widgets, which then must be assembled, packaged, and delivered. That 20th century "industrial business model" is an *extremely* expensive one. All those production lines cost a fortune. The opposite is playing out in the best spots on the Internet now. eBay is a fine example of that. It inverts the industrial model, as it simply enables the resale of stuff that was already made, or stuff that has been made by others, sold to others, through the eBay tollbooth. That has a high-margin monopoly ring to it.

3.1.3 Security

eBay's Trust and Safety team is responsible for keeping the marketplace a safe, well-lit place for people around the world to trade with one other. Actively working to enable members to trade safely, eBay fosters trust between members through the development and enforcement of rules and policies, the creation of reputation-building programs, and the prevention of fraud.

eBay also works behind-the-scenes to prevent fraud and, in the event a problem occurs, eBay proactively works with law enforcement and government agencies throughout the world to enforce its policies. Rooted in the values of the marketplace, eBay's policies are aimed at offering a level playing field, encouraging open, honest, and accountable transactions, and creating economic opportunities for everyone.

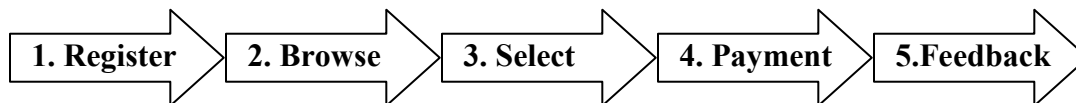
3.2 Business Process



eBay offers three basic categories of services to its customers namely,

- Buying – Allows users to search and buy different products listed by sellers.
- Selling – Allows users to upload their product specification for other buyers to buy it.
- Advanced Selling – Allows users to run a business through eBay.

3.2.1 Buying



3.2.1.1 Registration

To buy or sell on eBay one must be a registered user. It's fast, easy and free. As a registered eBay user, you can shop on eBay and participate in the world's largest online community of buyers and sellers. The registration involves the following steps:

1. Contact Information
2. UserID & Password Creation
3. Email Confirmation

3.2.1.2 Browse

Browsing is clicking through lists of titles called Categories until one find something you're interested in.

3.2.1.3 Select

Before one bid or buy, take the time to know as much as possible about the item and seller to make an informed decision, pay attention to the:

- Listing information
- Product details
- Shipping and payment details
- Seller information

eBay offers buyers two modes of purchases: "**Auctions style format**" and "**Buy it now which is fixed price format**".

- **Auctions** – Auctions are very simple and fun to be part of. In an auction the highest bidder is the winning bidder. Place a bid on an auction if you want to try and get the item at a lower price.
- **Buy It Now** – If you want to make an instant purchase try products listed under the Buy it now format.

3.2.1.4 Payment

After the buyers have selected their products they are given a choice of selecting their payment mode/method. There are many payment methods and most sellers offer more than one. Some methods offer more protection than others, so be sure to select a method of payment that makes you feel comfortable. Most payment methods are also covered by eBay's Standard Purchase Protection Program up to Rs. 10000(minus Rs 50 for processing costs).

Listed below are the most common payment methods:

- PaisaPay Online Bank Transfer
- PaisaPay Credit Card
- Demand Drafts
- Cash on Delivery (COD)
- Buyer Pays and Picks Up
- Cheques

3.2.1.5 Feedback

Feedback is made up of comments and ratings left by other eBay members you've bought from and sold to. Once you have received your item, it is time to leave feedback for the seller, letting future buyers know about your experience with the seller.

Type of information typically included in seller feedback:

- Satisfaction with the item
- Quality of communication
- Quality of packaging
- Promptness of shipping
- Courteousnes

3.2.2 **Selling**

Selling on eBay is simple. Millions of people earn extra cash or earn a great living from selling on eBay.



3.2.2.1 Registration

To buy or sell on eBay one must be a registered user. It's fast, easy and free. As a registered eBay user, you can shop on eBay and participate in the world's largest online community of buyers and sellers. The registration involves the following steps:

1. Contact Information
2. UserID & Password Creation
3. Email Confirmation

3.2.2.2 Research

Before enlisting users must do some research on similar products selling on the site.

Benefits of doing a research:

- Get a good understanding of products and prices currently on eBay

- Checking the Completed items search would help you analyse which formats do well on the site, what pricing strategies work better, how are similar items being promoted on eBay and much more.

3.2.2.3 Enlist

The sellers can enlist their product by

1. Choosing a category (Product Category)
2. Providing Title and Description
3. Providing Pictures and Details
4. Providing Payment and Shipping Details

3.2.2.4 Transaction

The buyer and seller receive an order confirmation at the end of the auction or when an order is placed in case of fixed price. The order confirmation mail includes the buyer and sellers complete contact details. This includes

1. Respond to mail
2. Acknowledge Payment
3. Leave Feedback
4. Packing
5. Shipping

3.2.2.5 Manage

eBay gives a user friendly interface to manage ones business/products called My eBay.

3.3 Adversity

Since eBay does at no point during the auctioning process take possession of either the item being sold or the buyer's payment for the item, user trust is a key issue for eBay. In the traditional model of trading forums the buyer and the seller usually exchange the item for the payment at the same time and place, meaning that trust does not play as big a role. For eBay to be able to convince users to participate they must deal with the inevitable delay between the buyers buying the item and receiving it, which is not an issue in the tradition model.

To reduce this anonymity and uncertainty of dealing online, eBay introduced Feedback Forums. At the completion of a transaction, users are encouraged to submit compliments or criticism to the trading profile of the trading partner to the Feedback Forum. By looking at the trading partner's history of trades, the user will be able to estimate more accurately the trustworthiness of the trading partner.

This is by no means a foolproof way to combat misuse, since users may be tempted to wait until their reputation is good enough that they can start to trade in expensive items before running away with the buyer's money. This argument may mean decreased scalability of eBay in terms of item price, at least for person-to-person auctions — more users may be tempted to use traditional modes to decrease their risk.

3.4 Competition

Since participating in the auction industry requires only a web presence, at first sight the threat of competition looms heavily over eBay. In fact, two online heavyweights have entered the market, Yahoo and Amazon. Amazon is in partnership with the well known auctioneer Sotheby's.

These (and many other) competitors have not only longer operating histories, but larger customer base and greater brand recognition. The reason why eBay currently control more than

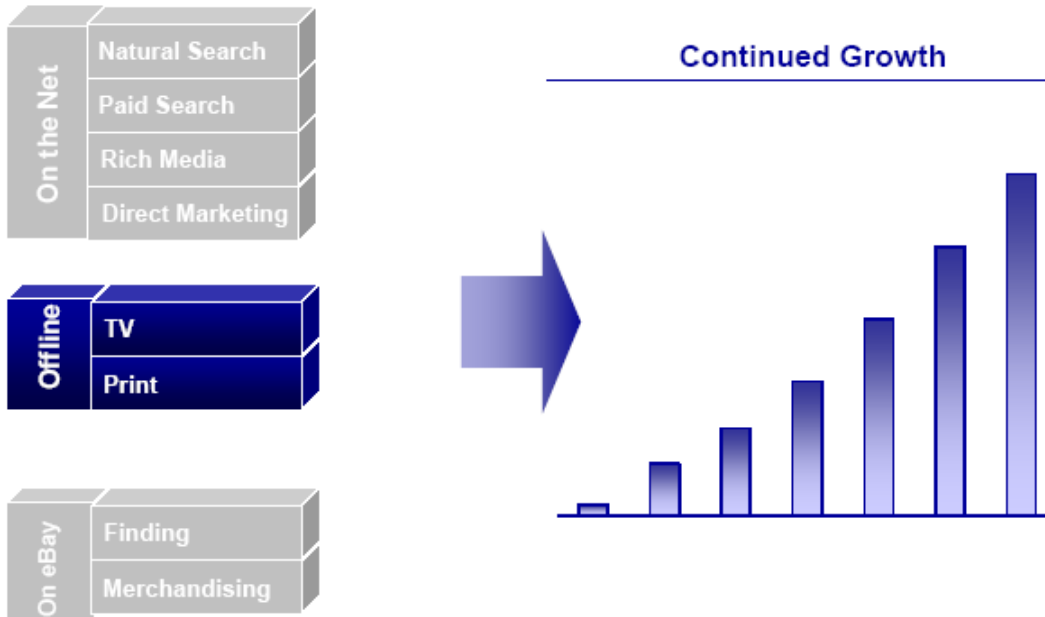
3.5.4 Direct Marketing –

- **Get in front of buyers more often, with more relevant information**
 - Sophisticated customer segmentation
 - Coordinated communication across channels
 - Better response rates



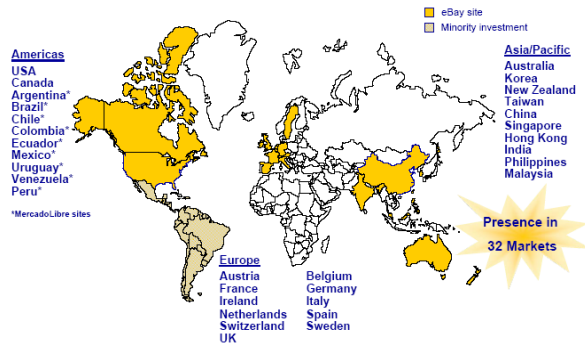
More reasons to buy

All these leads to effective buyer marketing leading to continued growth.



4. Facts and Figures

4.1 Global Reach (32 Markets)



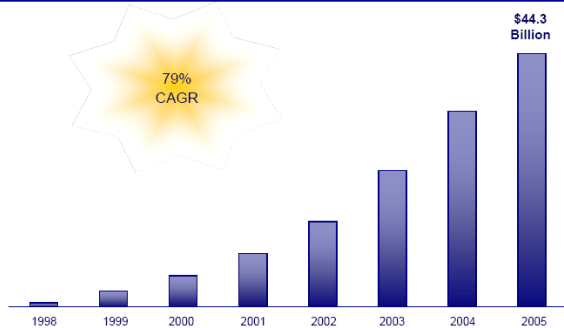
4.4 Ranking in Retail Domain

Leading global retailers

Company	C2005E Revenue
1. Wal-Mart	\$285B
2. Carrefour	\$92B
3. Metro	\$72B
4. Kroger Co.	\$56B
5. Ahold NV	\$54B
6. Costco Wholesale Corp.	\$53B
7. Target Corp.	\$47B
8. eBay GMV	\$44B
9. Walgreens	\$42B
10. Safeway Inc.	\$38B

4.2 Merchandise Growth

eBay - Gross merchandise volume



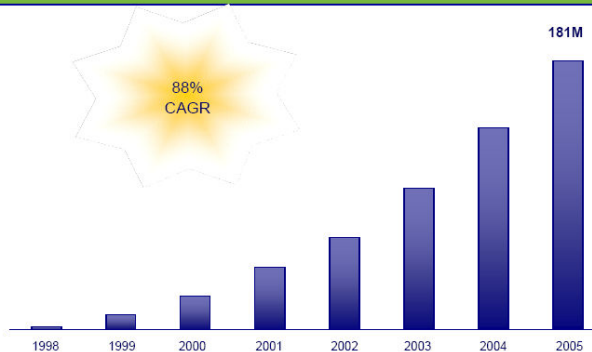
4.5 Brand Awareness

#1 in e-commerce brand awareness



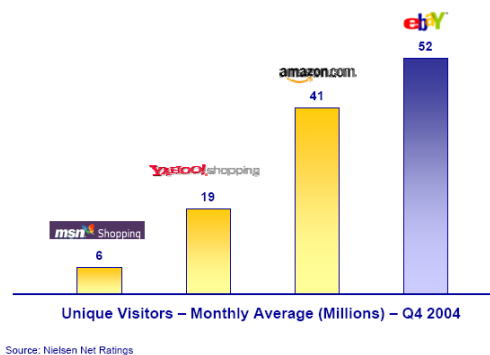
4.3 Customer Base

eBay - Registered users



4.6 E-Traffic Comparison

#1 in e-commerce traffic



5. Technology behind eBay

Online auction company eBay Inc. launched an overhaul of its IT infrastructure, rebuilding its data centers around a grid-type architecture and rewriting its applications in Java 2 Platform, Enterprise Edition.

5.1 *Orientation towards business intelligence applications*

Until about a year and a half ago, eBay approach was to dump all the data into their data warehouse and let their very intelligent employees figure out what to do with it. Then they had an epiphany: that not all accesses of the data warehouse they have created equally. They started to take more of a marketing approach to figure out what different groups needed. They started giving people the access privileges and education appropriate to their needs. They also have data marts sitting off to the side of the warehouse with the user class came tools specific to that user class, so deep analytics will have access to SAS databases, for instance. Most folks in the middle tier will have access to a number of tools, from either Informatica or homegrown ROLAP (relational OLAP) tools. And, finally, at the pinnacle of the pyramid are the executive users that get information and knowledge distributed to their desk specific to their business and to their needs.

The next vision for this thing is to give the 450,000 people who make their living in whole or in part on eBay information from the data warehouse to help them understand what products are selling the best and what they should put more of on the site.

5.2 *Hardware platform*

They use Sun systems, Hitachi Data Systems storage on Brocade SANs (Storage area networks) running Oracle databases and partner with Microsoft for the operating system. IBM provides front and middle tiers, and they use WebSphere as the application server running our J2EE code—the stuff that is eBay. The code is also migrated from C++ to Java, for the most part. Eighty percent of the site runs with Java within WebSphere.

5.3 *Perception towards Microsoft .Net*

eBay thought that using a J2EE-compliant system would gave them a lot more flexibility with respect to the other components in their architecture. .Net was definitely a viable solution, and Microsoft's a wonderful partner. But they wanted the extra flexibility of being able to port to other application servers and other underlying infrastructures.

5.4 *Servers*

They went from one huge back-end system and four or five very large search databases. Search used to update in 6 to 12 hours from the time frame in which someone would place a bid or an item for sale. Today, updates are usually less than 90 seconds. The front end in October '99 was a two-tiered system with IIS (Internet Information Services) and ISAPI (Internet Server API). The front ends were about 60 (Windows) NT servers. Fast-forward to today. They have 200 back-end databases, all of them in the 6- to 12-processor range, as opposed to having tens of processors before. Not all those are

necessary to run the site. They have that many for disaster recovery purposes and for data replication.

5.5 *Location of data centers*

They have two data centers in Santa Clara County (Calif), one data center in Sacramento (Calif) and one in Denver. When anyone address eBay or make a request of eBay, it have an equal chance of hitting any of those four. And it takes about 50 or so to run the site, not including search systems.

5.6 *Scaling*

The infrastructure they have today will allow them to scale nearly indefinitely. There are always little growth bumps, new things that they experience, and not a whole lot of folks from whom they can learn. But using the principles of scaling out, rather than scaling up, disaggregating wherever possible; attempting to avoid state, because state is very costly and increases its failure rate; partnering with folks like Microsoft and IBM, Sun, Hitachi Data Systems, where they feel they have skin in the game and are actually helping them to build something, and then investing in people, along with commodity hardware and software—applying those principles, they can go indefinitely.

5.7 *Traceability for customer's problem*

It uses proxy measuring systems, using partners like Keynote, to measure ISP performance, and Gomez, which measures availability to the customer. They also have internal monitoring systems that monitor about 45 cities around the world, where they perform transactions against our site and count the error rates. They're starting to disaggregate their systems, trying to ensure that they have appropriate fault isolation and redundancy. They're in their Denver and in one of our Santa Clara County facilities.

5.8 *Approach during disaster recovery*

They've taken a unique approach with respect to infrastructure. In a typical disaster recovery scenario, anyone have to have 200 percent of the capacity—100 percent in one location, 100 percent in another location—which is cost-ineffective. They have three centers, each with 50 percent of the traffic, actually 55 percent, adding in some bursts.

5.9 *Acceleration through Skype*

eBay 2.0, which started up this past spring, is a great example. But just about everything they build comes from the community. Skype's VOIP (voice-over-IP) telephony software will help eBay drive existing and new e-commerce on the popular online auction site, said eBay Inc. officials. Skype SA, which has about 53 million registered users, provides software to let users talk for free over the Internet or pay to send and receive calls from landline or cellular phones "Skype accelerates the velocity of trade on eBay and accelerate the volume of payments on PayPal, (which eBay acquired in 2002), while at the same time creating new lines of business and creating significant new monetization opportunities for the company," said

Meg Whitman, president and CEO of eBay, in a conference call with the press and analysts today.

5.9 *Semweb technology*

Semweb technology matured, and all of a sudden centralized databases and Ebay were prime examples of centralized databases with millions of items each - could suddenly be spread out through the entire web. Everyone could own their little piece of the database, their own part of the puzzle. It was easy to publish the stuff. But the problem was that there was no good way to bring it all together and it was hard to create RDF files, even for some programmers.

5.10 *Technology enhancement*

Their job was to move from crisis to world-class in short order. To do that, they went about deconstructing and re-constructing the site—while it was live, while transactions were happening. In the course of about two years, they re-architected the infrastructure and the software for the site. Before, all the transactions hit one massive database, which was the point of contention, along with some storage problems. Most of the meltdown was due to a monolithic application addressing everything in a single, monolithic database. One application held all the applications of eBay, with the exception of search.

5.11 *Problems during technology enhancement*

It didn't work because of the limitations of SMP (symmetric multiprocessing) systems. High-end scalable multiprocessor systems, firstly, are very costly. It's one of the first things they learned. Secondly, they represent a single point of failure from which it can recover with clustering, but with downtime.

Job One was to eliminate the single point of failure in the huge, monolithic system. Then, reconstruction of the application to ensure that they had fault isolation and that processes and tasks of like size and cost they are not congesting and competing with each other. They disaggregated the monolithic system and ensured scale and fault tolerance.

A good way to think about it is that it's one of the first examples of grid computing. It's an array of systems, each of which has a service component that answers to another system: fault tolerance meant to allow for scale. As a matter of fact, they would have potential vendors and partners come in and try to sell them on the idea of grid computing and they'd say, "It sounds an awful lot like what they were doing. They didn't know there was a name for it."

5.12 *Shifting towards new application*

eBay began automatically including RDF-spidered data on their sites, fitting it right in with existing auctions and items for sale, taking whatever cuts they could find or force out of the situation. They're in a continuous state of re-evaluation, and they're not afraid to swap out where necessary. With the help of Sun people, they've tuned the applications to take advantage of the benefits of their systems. There would be a bit of work to change, but should the time come where they believe there's a significant benefit, they would probably make that move.

Sun's recent strategy, with their alliance with AMD (Advanced Micro Devices Inc.), shows that they are willing to move toward the commodity space. They're actually running a pilot of that architecture, AMD-based Sun servers with a Linux variant.

eBay has a wonderful culture of continual process improvement, of continually raising the bar. The biggest step function they made was the elimination of the scheduled maintenance period. So now eBay is available 24-by-7. The systems are never off.

5.13 Strategy for eBay towards international expansion

They deliver the content for most countries from the U.S. The exceptions are Korea and China, which have their own platforms. In the other 28 countries, when an item is listed for sale or when there is attempt to bid or buy an item, that comes back to the U.S. They distribute the content around the world through a content delivery network. They put most of the content that's downloaded except for the dynamic pieces in a location. That's about 95 percent of the activity, making the actions or requests that come back to eBay in the U.S. very lightweight. A page downloads in the U.K. in about the same time that it downloads in the U.S., thanks to their partner Akamai (Technologies Inc.), whose content delivery network resides in just about every country, including China.

5.14 Immediate action for projects

They're in a continual improvement process, where their community tells them in real time what's working and what isn't. They've got 114 million people working in our behalf, telling them what to do. They're the heart, the brain, the soul. The greatest thing about this place is that they get real-time feedback from everyone. That's why they have the community boards and their engineers go out and talk to the community.

6. Future of eBay

eBay has become an online middleman for buyers and sellers in a way which traditional brick and mortar companies cannot touch. Using the web has also brought along with it some challenges, especially regarding trust issues between buyers and sellers. eBay seems to have dealt adequately with those trust issues, since users don't seem to mind and continue to use their service.

eBay is operationally sound, especially considering it is still in its buildup period and it has a business model that scales extremely well. The management has shown that it responds quickly and well, and has been working hard to expand the business without jeopardizing the core business. Even though eBay's stock may still be overvalued, the business fundamentals are solid and the only risk is if eBay doesn't grow as fast as it has estimated.

6.1 *Ebay's growth after collaboration with SKYPE*

The acquisition will strengthen eBay's global marketplace and payments platform, while opening several new lines of business and creating significant new monetization opportunities for the company. The deal also represents a major opportunity for Skype to advance its leadership in Internet voice communications and offer people worldwide new ways to communicate in a global online era. Skype, eBay and PayPal will create an unparalleled ecommerce and communications engine for buyers and sellers around the world.

"Communications is at the heart of ecommerce and community," said Meg Whitman, President and Chief Executive Officer of eBay. "By combining the two leading ecommerce franchises, eBay and PayPal, with the leader in Internet voice communications, we will create an extraordinarily powerful environment for business on the Net."

Skype offers high-quality voice communications to anyone with an Internet connection anywhere in the world. The Skype software is easy to download and install, and enables free calls between Skype users online. Skype's premium services provide low-cost connectivity to traditional fixed and mobile telephones. Skype's software also offers a robust set of features, including voicemail, instant messaging, call forwarding and conference calling. Upcoming product innovations include Skype video, expressive content such as avatars, and customized toolbars for Outlook and Internet Explorer.

One of the fastest growing companies on the Internet, Skype already has 54 million members in 225 countries and territories. Skype is currently adding approximately 150,000 users a day and has created a thriving ecosystem of products, services, developers, and affiliates. Skype is considered the market leader in virtually all countries in which it does business. In North America alone, Skype has more users and serves more voice minutes than any other Internet voice communications provider.

"Our vision for Skype has always been to build the world's largest communications business and revolutionize the ease with which people can communicate through the Internet," said Niklas Zennström, Skype CEO and co-founder. "We can't think of any better platform to fulfill this vision to become the voice of the Internet than with eBay and PayPal."

“We’re great admirers of how eBay and PayPal have simplified global ecommerce and payments,” said Janus Friis, Skype co-founder and senior vice president, strategy. “Together we feel we can really change the way that people communicate, shop and do business online.” Zennström and Friis will remain in their current positions. Zennström will report to eBay CEO Whitman and join eBay’s senior executive team.

6.1.1 Powerful Ecommerce and Communications Engine

Online shopping depends on a number of factors to function well. Communications, like payments and shipping, is a critical part of this process. Skype will streamline and improve communications between buyers and sellers as it is integrated into the eBay marketplace. Buyers will gain an easy way to talk to sellers quickly and get the information they need to buy, and sellers can more easily build relationships with customers and close sales. As a result, Skype can increase the velocity of trade on eBay, especially in categories that require more involved communications such as used cars, business and industrial equipment, and high-end collectibles. The acquisition also enables eBay and Skype to pursue entirely new lines of business. For example, in addition to eBay’s current transaction-based fees, ecommerce communications could be monetized on a pay-per-call basis through Skype. Pay-per-call communications opens up new categories of ecommerce, especially for those sectors that depend on a lead-generation model such as personal and business services, travel, new cars, and real estate. eBay’s other shopping websites — Shopping.com, Rent.com, Marktplaats.nl and Kijiji – can also benefit from the integration of Skype.

PayPal and Skype also make a powerful combination. For example, a PayPal wallet associated with each Skype account could make it much easier for users to pay for Skype fee-based services, adding to the number of PayPal accounts and increasing payment volume.

In addition, Skype can help expand the eBay and PayPal global footprint by providing buyers and sellers in emerging ecommerce markets, such as China, India, and Russia, with a more personal way to communicate online. And consumers in markets where eBay currently has a limited presence, such as Japan and Scandinavia, can learn about eBay and PayPal through Skype. Skype can also help streamline cross-border trading and communications.

With its rapidly expanding network of users, the Skype business complements the eBay and PayPal platforms. Each business is self-reinforcing, organically bringing greater returns with each new user or transaction. The three services can also reinforce and accelerate the growth of one another, thereby increasing the value of the combined businesses. Working together, they can create an unparalleled engine for ecommerce and communications around the world.

6.2 *Future growth through SMS*

Selling and buying of products can be done using SMS. After doing auctioning or fixed price marketing, customer can choose their product and place order giving order details. After giving order details a confirmation about the order will be sent to confirm order. Then the customer can give the details of payment through messages. So this will make the mobile marketing of customer. So by this way any customer can bid or order fixed priced items from any place. He can also check for the status of its product.

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