

Chapter III

A Comparative Analysis of eBay and Amazon

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ABSTRACT

Even though Amazon.com has received most of the hype and publicity surrounding e-commerce, eBay has quietly built an innovative business truly suited to the Internet. Initially, Amazon sought to merely replicate a catalog business model online. Its technology may have been innovative- but its business model was not. On the other hand, eBay recognized the unique nature of the Internet and enabled both buying and selling online with spectacular results. Its auction format was a winner. eBay also clearly demonstrated that profits do not have to come in the way of growth. Amazon was initially focused on BN.com as a competitor. Over time, Amazon came to recognize eBay as the competitor. Its initial foray into auctions was a spectacular failure. Now, Amazon is trying to compete with eBay by facilitating selling and strengthening its affiliates program.

INTRODUCTION

It is odd in some ways to be comparing Amazon and eBay. To most people, Amazon is a retailer selling products to consumers and eBay is an auction house where consumers congregate to sell to one another. However, a keen analysis reveals that these two companies are direct competitors. For instance, the only site to receive more visitors than Amazon during the 2002 holiday season was eBay. It is now well known that Amazon considers eBay to be its biggest competitor.

Amazon.com is perhaps the company that is most closely tied with the e-Commerce phenomenon. The Seattle, Washington based company has grown from a book seller to a virtual Wal-Mart of the Web selling products as diverse as music CDs, cookware, toys, games, tools and hardware. At the same time, the company now offers selling services either through auctions or by a fixed-price format. The company has also become a major provider of technology to partners such as Toys 'R Us and Target.

Amazon has grown at a tremendous rate with revenues rising from about \$150 million in 1997 to \$3.9 billion in 2002. However, the rise in revenue has led to a commensurate increase in operating losses. At the end of 2002, the company had a deficit (i.e., cumulative losses) in excess of \$3 billion.

On the other hand, eBay has had a focused and slower growth path. The core nature of the company's business has always been auctions. Even though the company has grown rapidly, it is still a relatively small company with revenues of about \$750 million.

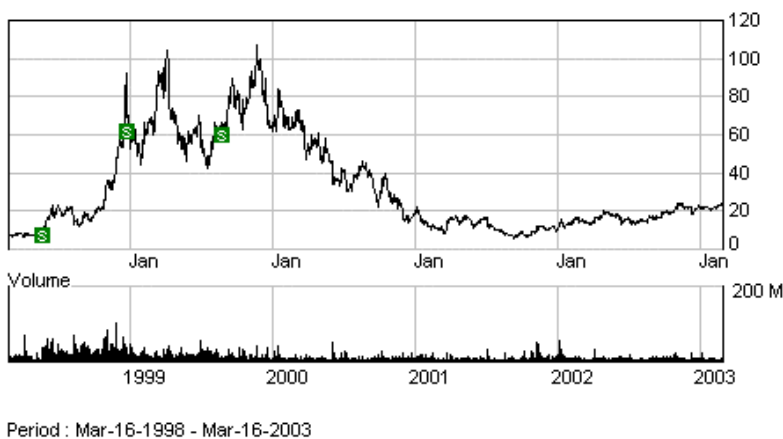
Starting with the Initial Public Offerings (or IPOs), the stock trajectories of Amazon and eBay have provided an interesting contrast. On the first day of its IPO, Amazon's stock rose from the target price of \$18 to \$30. In a strange coincidence, eBay shares were also priced at \$18. However, the closing price was much higher—\$47.37.

Since then, the stock prices have gone in opposite directions (see Figures 1 and 2). Amazon's share price path is perhaps the biggest symbol of the rise and fall of the dot-coms. On the other hand, eBay's steady price path reflects the consistent profitability of the company. Amazon.com has never had an entire year that was profitable. It has been profitable in the fourth quarter of 2001 and 2002. The stock prices clearly reflect this.

While Amazon had the glamour of growth in sales revenue, eBay was the steady plodder that nobody noticed in the initial years. Most dot-coms wanted to replicate the model of Amazon. It was very common for a dot-com start-up to proclaim that it wanted to be "the Amazon of XYZ" product category. Pets.com wanted to be the Amazon of pet food, for instance.

Fundamentally, these two companies provide us with two interesting models of how to grow a company. Bezos, the founder of Amazon, has famously argued that excessive

Figure 1. Amazon.com's Stock Price Path.



Source: Quicken.com, Accessed on March 17, 2003

Figure 2. eBay's Stock Price Path.



Source: Quicken.com, Accessed on March 17, 2003

focus on profits would detract from growth. In his view, growth must come first and profits can come later. This is an unconventional view- to say the least. Most companies take the approach eBay took which is to first build a small company that is profitable and then grow it to a larger business.

Bezos' view is that rapid growth in early years is needed to distance a company from its competitors and to ensure long-term viability. In his view, size is the ultimate security for a company. Being big is everything. On the other hand, for eBay the focus was really on being profitable. They did not care as much about becoming the largest e-commerce company. All they wanted was to be an efficient intermediary so that they could make profits. Today, eBay perhaps represents the cheapest way of selling products on the Internet.

Thus, these two stalwarts of e-commerce present us with two contrasting growth paths and track records.

EARLY LIFE

Amazon.com¹

The story of the formation of Amazon.com is often repeated and is now an urban legend. The company was founded by Jeff Bezos, a computer science and electrical engineering graduate from Princeton University. Bezos had moved to Seattle after resigning as the senior vice-president at D.E.Shaw, a Wall Street investment bank. He did not know much about the Internet. But, he came across a statistic that the Internet was growing at 2,300%, which convinced him that this was a large growth opportunity. Not knowing much more, he plunged into the world of e-commerce with no prior retailing experience².

He chose to locate the company in Seattle because it had a large pool of technical talent and since it was close to one of the largest book wholesalers located in Roseburg,

Oregon. Clearly, he was thinking of the company as a bookseller at the beginning. Moreover, the sales tax laws for online retailers state that one has to charge sales tax in the state in which one is incorporated. This means that for all transactions from that state the price would be increased by the sales tax rate leading to a competitive disadvantage. Therefore, it was logical to locate in a small state and be uncompetitive on a smaller number of transactions rather than in a big state such as California or New York.

The company went online in July 1995. The company went public in May 1997. As a symbol of the company's frugality, Jeff and the first team built desks out of doors and four-by-fours. The company was started in a garage. Ironically, initial business meetings were conducted at a local Barnes & Noble store.

Bezos' first choice for the company name was Cadabra. He quickly dropped this name when a lawyer he contacted mistook it for cadaver. He picked Amazon because it started with the letter A, signified something big and it was easy to spell.

For his contribution, Jeff Bezos was picked as the 1999 Time person of the year at the age of 35 making him the fourth-youngest person of the year. Describing why it chose Bezos, Time magazine said, "Bezos' vision of the online retailing universe was so complete, his Amazon.com site so elegant and appealing that it became from Day One the point of reference for anyone who had anything to sell online."³

eBay.com

Pierre Omidyar, the founder of eBay, graduated from Tufts University with a computer science degree. He worked for a variety of companies producing computer programs for Apple's products including Claris and Innovative Data Design. His first foray into the Internet was at General Magic, a communications start-up.

The story that led to the formation of eBay is very interesting and is described well by Kevin Pursglove, Senior Director of Communications:⁴

A key component that prompted him to do this was at the time his fiancée—now wife—was interested in her Pez (dispenser) collection. She was experiencing a frustration that many collectors have experienced, and that is often times when you're collecting a particular item or you have a passion for a particular hobby, your ability to buy and trade or sell with other people of similar interests is limited by geographical considerations. Or if you trade through a trade publication, often volunteers produce those publications, and the interval between publications can often run several weeks if not months.

All of that was shortened down when Pierre, at the prompting of his wife and interest in Pez dispenser collections, used his interest in fragmented markets and efficient marketplaces as a laboratory for what eventually became eBay.

Pierre wanted to name the company Echo Bay. However, another company had registered echobay.com. As a result, he chose eBay. Pierre had strong opinions about the unfairness of many market arrangements. This led to his interest in auctions. As a recent book puts it:

He had never attended an auction himself, and did not know much about how auctions worked. He just thought of them as "interesting market

mechanisms” that would naturally produce a fair and correct price for stocks, or for anything anyone wanted to sell. “Instead of posting a classified ad saying I have this object for sale, give me a hundred dollars, you post it and say here’s a minimum price,” he says. “If there’s more than one person interested, let them fight it out.” When the fighting was done, Omidyar says, “the seller would by definition get the market price for the item, whatever that might be on a particular day.”

Pierre launched eBay.com on Labor Day of 1995. He developed the program and the Web design for the initial pages himself. The site was publicized in USENET discussion groups. Initially, the site was free. When his Internet Service Provider started charging him the business rate for the service (\$250), he began to charge consumers. The initial fee was 5 percent of the sale price for items below \$25, and 2.5 percent for items more than \$25. Soon, he started to receive small amounts of money and he was able to make more than the \$250 he was being charged to run the site. eBay was in business.

COMPARISON OF VISIONS

Jeff Bezos, the charismatic leader of Amazon was always interested in building an online retailer. It is very clear that Bezos wanted to replicate a catalog operation online. In this way, *the business model of Amazon was not particularly innovative*—nor was it uniquely customized to the idiosyncrasies of the Internet. Bezos never had the vision that the company will one day be supplying its technology to other retailers or hosting other sites.

Bezos was always focused on creating an online retailer and he saw himself improving on traditional bricks-and-mortar stores. In his own words:⁵

Look at e-retailing. The key trade that we make is that we trade real estate for technology. Real estate is the key cost of physical retailers. That’s why there’s the old saw: location, location, location. Real estate gets more expensive every year, and technology gets cheaper every year. And it gets cheaper fast.

This was a naive observation on his part and it was made in the early days of Amazon when the company thought it could grow without making physical investments. We have now learned that huge physical investments are needed to serve markets better. The company has now invested in large warehouses that have proven to be costly. Ironically, eBay has pretty much continued to be a virtual operation.

He also thought that the Internet had special strengths in building a customer-centric company:⁶

In the online world, businesses have the opportunity to develop very deep relationships with customers, both through accepting preferences of customers and then observing their purchase behavior over time, so that you can get that individualized knowledge of the customer and use that individualized knowledge of the customer to accelerate their discovery process. If we can do that, then the customers are going to feel a deep loyalty to us, because we know them so well.

In direct contrast, even early on, eBay had a completely different view of the world and the Internet and how it applied to retailing. While most companies (led by Amazon) were interested in opening online stores where they could sell products to consumers, Pierre Omidar, the founder of eBay, was interested in creating a trading community. In his own words:⁷

The first commercial efforts were from larger companies that were saying, 'Gee, we can use the Internet to sell stuff to people.' Clearly, if you're coming from a democratic, libertarian point of view, having corporations just cram more products down people's throats doesn't seem like a lot of fun. I really wanted to give the individual the power to be a producer as well.

Along the same lines, Meg Whitman, CEO of eBay, has said that:⁸

We created a business that took unique advantage of the properties of the Net—the Net's ability to connect many to many—allowing a business to be created where there was no land-based analog. If you can't buy your book at Amazon, you can still go down to Barnes & Noble. eBay has no land-based analog—not in one place. It was a business model that was created out of the technology called the Internet. Some of the most successful companies are those that had an entirely new model that could not have existed without the Net. eBay might be one of the only businesses that was created on the Internet.

Put otherwise, the vision of Bezos at the initial stage was that of a dominant firm selling products to individual customers. In direct contrast, eBay's approach was to create a bazaar where people *bought and sold* to one another.

I have shown these contrasting visions in Figures 3a and 3b. Figure 3a represents Bezos' vision. He thought of a large company (represented by the large circle) selling to individuals (represented by the small circles). To use the quote on the previous page, Bezos really wanted to "push product down people's throats."

Figure 3b shows eBay's vision. This is the vision of an intermediary in a complex marketplace. eBay sought to be the facilitator of exchanges between many individuals. eBay did not want to own the products being exchanged—which is a key difference

Figure 3a. Amazon's Initial Vision.

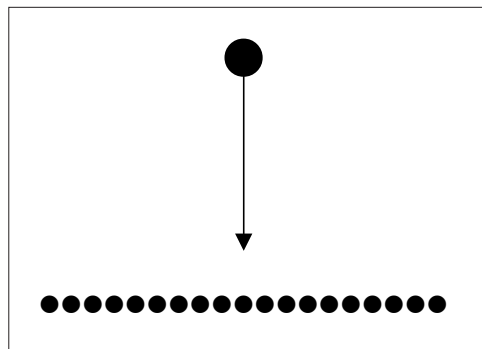
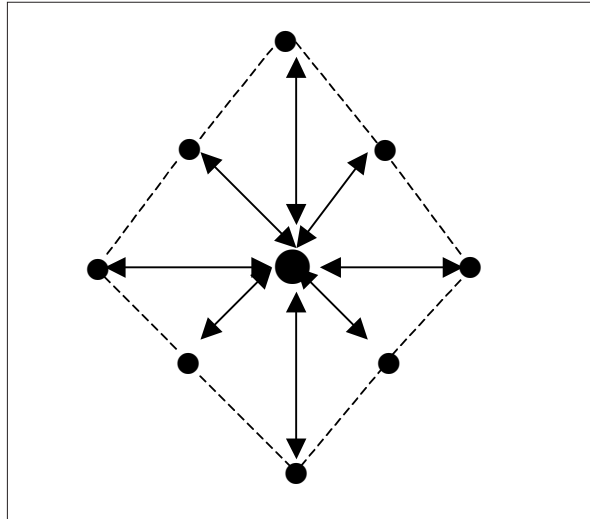


Figure 3b. eBay's Initial Vision.



between the two companies. The issue is really one of control. Amazon wanted to control the transaction and eBay wanted the transactions to emerge organically.

eBay set out to create an intermediary that helps buyers meet sellers. Unlike the traditional retailer model adopted by Amazon, eBay has created a unique business model. The company makes money by matching buyers with sellers. Sellers ship the items directly to the buyers. As a result, eBay does not have any distribution or fulfillment cost which gives it a tremendous advantage.

While Amazon set out to build a store on the Web, eBay created something unique that did not exist anywhere. It is, therefore, hard to find the proper offline analogy to describe eBay. The most common way to think of eBay is an auction house since the method used to sell products on eBay is mainly auctions. However, some have suggested that eBay could be thought of as a giant “classified advertisement” page where individuals can advertise an item that they would like to sell for a price and buyers can contact the sellers directly. Similarly, one could think of the company as a large swap meet or yard sale where individuals can buy directly from consumers.

As the current CEO, Meg Whitman put it:⁹

We created a business that took unique advantage of the properties of the Net—the Net’s ability to connect many to many—allowing a business to be created where there was no land-based analog. If you can’t buy your book at Amazon, you can still go down to Barnes & Noble. eBay has no land-based analogs—not one in place. It was a business model that was created out of the technology called the Internet. Some of the most successful companies are those that had an entirely new model that could not have existed without the Net. eBay might be one of the only businesses that was created on the Internet.

This is not hype. It is the truth.

GROWTH STRATEGY

A comparative study of the history of these two companies points out that Amazon has gone from an exclusive product seller to a company that now sells products, offers services and is a technology provider. On the other hand, eBay has been completely focused as a service provider. eBay has stayed the course without excessive change.

Amazon's Growth

Amazon.com started out as an online bookseller. Indeed, to some, Amazon.com will always be a bookseller. Selling books on the Internet made sense at many levels. To Jeff Bezos, the main advantage was selection:⁹

Books are incredibly unusual in one respect, and that is that there are more items in the book category than there are items in any other category by far. There are more than three million different titles available and active in print worldwide. When you have this huge number of titles, a couple of things start to happen.

First, you can use computers to sort, search and organize. Second, you can create a super-valuable customer proposition that can only be done online, and that is selection. There are many categories where selection is proven to be important: books, in particular, with the book superstores, but also in home construction materials, with Home Depot, and toys with Toys 'R Us. Online, you can have this vast catalog of millions of titles, whereas in the physical world, the largest physical superstores are only about 175,000 titles, and there are only three that big.

In addition, as a product, books were easy to ship since they were not bulky, they represented a low value (and risk) item and they are informational products making them amenable to selling them via online storefronts using features such as sample chapters, table of contents, editorial reviews and customer reviews.

However, Amazon.com rapidly expanded into a number of products. Here is a timeline for the first few product introductions:¹⁰

- June 1998: Music
- November 1998: DVD/video
- July 1999: Toys and electronics
- November 1999: Home improvement, software and video games

Its foray into music was dramatic. "In Amazon's first full quarter selling music CDs, ending last September, it drew \$14.4 million in sales, quickly edging out two-year-old cyber-leader CDnow Inc."¹¹ However, it is not clear if it could translate such success into products as disparate as cookware and hardware.

The following arguments have been made in *favor* of rapid diversification:

Cross Selling

Amazon wanted to get a greater share of each customer's overall shopping basket. They felt that they had already established a relationship with the customer with books.

All that remained was to leverage this trust in persuading consumers to buy everything else from them.

Economies of Scale

From a technology standpoint, the company had already incurred the fixed costs of developing software for the online storefronts. Expanding into other product categories would allow the company to spread these fixed costs across a larger pool of transactions leading to greater profits. As Bezos put it:¹²

On the Internet, companies are scale businesses, characterized by high fixed costs and relatively low variable costs. You can be two sizes: you can be big, or you can be small. It's very hard to be medium. A lot of medium-sized companies had the financing rug pulled out from under them before they could get big. ...

When we open a new category, it's basically the same software. We get to leverage the same customer base, our brand name, and the infrastructure. It's very low-cost for us to open a new category, whereas to have a pure-play single-line store is very expensive. They'll end up spending much more on technology and other fixed costs than we will just because our earlier stores are already covering those costs.

Forever Small

Selling books alone would not catapult Amazon as the leading e-tailer and a cutting-edge firm. They would forever be constrained by the small market that they operated in. Moving into other product categories allowed them to be thought of as a dominant retailer as opposed to a ho-hum business.

Blessing of Wall Street

Perhaps, the most important reason for Amazon to diversify was that at the time it was a darling of Wall Street. Skeptics were overruled by high-flying optimists who viewed Amazon as the symbol of the new economy and a new way of doing business. As a result, Amazon made the best use of the opportunity.

On the other hand, many arguments have been made *against* expanding into new product categories:

Brand

Amazon established a relationship with its first customers on the basis of being a bookseller. Redefining this relationship in terms of other product categories is a nontrivial task. A typical customer reaction can be stated as, "Many of us old customers have a hard time thinking of Amazon as a place to buy a set of Polk home theater speakers or a set of Calphalon cookware. For me, the Earth's Biggest Bookstore moniker has occupied a spot in my mind since it began appearing in those tiny bottom-of-page-one advertisements in the *New York Times*."¹³

New Products Lead to New Challenges

As mentioned earlier, books provided certain unique advantages to Amazon. Moving into new product areas provided new challenges. The case of consumer electronics items illustrates this best.

In this business, Amazon.com has not been able to buy directly from leading manufacturers such as Sony, Panasonic and Pioneer. As a result, Amazon is forced to buy products from distributors leaving it with a hefty competitive disadvantage that may be hard to overcome¹⁴. In addition, selling at prices lower than what the manufacturer wanted strained relationships with such giants as JVC¹⁵.

There are many reasons for this¹⁶. In the electronics business, manufacturers have a stringent set of requirements on how a retailer will display and sell their products. Only retailers who pass this are pronounced authorized dealers. Authorized dealers get lower prices, money for cooperative advertising and the right to sell warranties. Large manufacturers did not want to jeopardize existing relationships with retailers by selling through Amazon—whom they feared would sell at lower prices. At the same time, some manufacturers wanted to set up their own online stores. For example, Sony sells electronics through *sonystyle.com* and deals with the online counterparts of established players such as Best Buy and Circuit City.

Moreover, some manufacturers felt that Amazon did not have a long-enough history in the business and were turned off by its string of losses. Also, Amazon may have appeared as too unconventional for them to feel comfortable—e.g., Amazon's reliance on e-mail as the primary customer service tool did not please some manufacturers.

The vital part of this is that electronics represent the fastest growing part of Amazon's business while the book, music and video portions have leveled off. As one analyst from Prudential put it:

“It has been our contention that if the most profitable part of Amazon's business is not growing, and the most unprofitable part of its business is growing rapidly, the company will begin to experience economic deterioration.”

In the final analysis, the company has showed an inability to grasp the intricacies of some of the businesses it entered into. Interestingly, BN.com did not diversify beyond books, music and videos.

Competition

Amazon.com was the *de facto* first-mover in the book market. But, this was not the case in most other product categories. For example, e-tailers such as CD Now were already in place before Amazon.com appeared in the music category. As a result, Amazon exposed itself to new levels of competition creating new vulnerabilities. In many cases, established players in the brick and mortar space had also established a presence in the online arena. Moreover, as brick-and-mortar stores such as JC Penney and Circuit City expanded to the online arena, Amazon was faced with escalating levels of competition.

Cost of Complexity

Amazon.com's business is not driven by technology costs alone. Rather, its costs are significantly dependent on the handling of physical goods and inventory. As the

magnitude and variety of good increase, the cost of real estate, labor and inventory also increase¹⁷.

In addition to expanding into new product categories, Amazon.com proceeded in two new directions. The first initiative was to partner with e-tailers who sold products that Amazon did not carry and did not plan to carry. The second one was to host several small businesses as part of the Zshops initiative. Jeff Bezos explained that:

“It’s not a shift in the model. It’s something we had always thought about. For at least a year, we’ve been talking about ourselves as a ‘platform’. It’s a foundation or a workbench from which you can do a lot of things. In our case, it consists of customers, technology, e-commerce expertise, distribution centers, and brand.”¹⁸

With each of these initiatives, the company leveraged its reputation and minimized its risk, but it also relinquished control over the consumer experience. In addition, it created layers of complexity and cost due to issues of due diligence and monitoring.

eBay’s Growth

Unlike Amazon, eBay has been very focused as a service provider. The major variation from this strategy has been the purchase of Half.com, which is a fixed-price retailing operation. This is a place where consumers can go to buy new items. In addition, the company recently acquired Paypal, a leading provider of person-to-person payment services.

eBay has many other service operations:

- **eBay International.** eBay has consciously tried to create a global marketplace. Even though users from other countries may bid on U.S. auctions, the legal and financial barriers prevent easy trading. Country-specific sites are seen as the way to overcome this. As of now, eBay has country-specific sites in Austria, Australia, Canada, France, Germany, Ireland, Italy, Japan, Korea, New Zealand, Switzerland and the UK.
- **eBay Motors.** In addition to selling used cars online, this site features motorcycles, as well as auto parts. The company has created a unique trading environment with services such as financing, inspections, escrow, auto insurance, vehicle shipping, title & registration, and a lemon check.
- **eBay Stores.** eBay Stores expands the marketplace for sellers by allowing them to create customized shopping destinations to merchandise their items on eBay. For buyers, eBay Stores represents a convenient way to access sellers’ goods and services. Buyers who shop at eBay Stores are able to make immediate and multiple-item purchases for fixed-price and auction-style items.
- **eBay Professional Services.** Professional Services on eBay serves the fast growing and fragmented small business marketplace by providing a destination on eBay to find professionals and freelancers for all kinds of business needs such as Web design, accounting, writing, technical support, among others.
- **eBay Local Trading.** eBay has local sites in 60 markets in the U.S. These sites feature items that are located near them. As a result, buyers pay low shipping rates—especially for difficult-to-ship items such as automobiles, furniture or appliances.

- **eBay Premier.** This is a specialty site on eBay, which showcases fine art, antiques, fine wines and rare collectibles from leading auction houses and dealers from around the world. Through its “Premier Guarantee” program, all sellers on eBay Premier stand behind and guarantee the authenticity of their items.
- **eBay Live Auctions.** This interesting feature allows consumers to participate in auctions being conducted by the world’s leading auction houses.

HEAD-TO-HEAD “COMPETITION”

On March 30, 1999, Amazon.com announced that it was introducing Amazon.com Auctions¹⁹. This was a bold move on the part of Amazon to overthrow the large Internet auction house eBay.

The rationale for Amazon’s entry into auctions was:

- *Cross-selling:* Amazon wanted to leverage its large customer base and encourage them to become buyers or sellers on its auction service.
- eBay’s focus was almost exclusively on small businesses (e.g., antique dealers) and collectors. The thinking at that time was that Amazon might introduce new kinds of buyers and sellers leading to a different market dynamic.
- *Competition:* At this point, variable price mechanisms such as auctions were being projected as the dominant form of e-commerce in the future. As a result, a number of companies introduced auctions. Consider the moves made by Amazon’s competitors in March 1999:²⁰
 - PriceLine.com, the reverse auctioneer went public on March 30, rocketing 57 to close at 70.
 - eBay forged a \$75 million deal with America Online on March 25 to promote its eBay auctions on AOL.
 - Catalogue retailer Sharper Image began offering online auctions of new and excess merchandise on March 1.
 - Computer e-tailer Cyberian Outpost launched a site on March 16.

How did Amazon’s approach differ from previous efforts?

- Amazon provided a money-back guarantee for purchases less than \$250²¹. Since seller-side fraud is a big issue with auctions, this was seen as a radical move.
- In addition, Amazon invited a group of merchants to set up shop on its auction site.

The biggest challenge faced by the company in this arena was to topple the giant, eBay and offer something that it does not. It is also difficult to build a critical mass of buyers and sellers to survive in the long run. As shown in Table 1, it is safe to say that Amazon’s auction venture was not very successful. Here, satisfaction rate refers to the average satisfaction score with max being 10. The conversion rate refers to the proportion of visitors who actually transacted on any particular site.

The embarrassing thing was that eBay did not have to do anything special to counteract Amazon.

What is even more troublesome for Amazon is that eBay now dominates it in every aspect. As shown in Table 2, as of January 2003, eBay has beaten Amazon in terms of unique visitors to the site. eBay always had a clear and dramatic edge over Amazon in terms of time spent at the site. This advantage continues.

Table 1. Top Auction Sites Ranked by Revenue Share, May 2001 (U.S.)

	Auction Site*	Revenue**, \$ million	Revenue Share	Satisfaction Rate	Conversion Rate
1.	eBay.com**	357.51	64.30%	8.42	22.50%
2.	uBid.com	81.73	14.70%	7.87	11.00%
3.	Egghead.com (Onsale.com)	22.24	4.00%	7.75	8.00%
4.	Yahoo! Auctions	13.34	2.40%	7.84	4.40%
5.	Amazon Auctions	11.12	2.00%	7.64	6.50%

Source: Nielsen/NetRatings & Harris Interactive eCommercePulse, May 2001

*Auction sites do not include travel related sites

**Figures for eBay.com do not include figures for Half.com

*** All revenue figures are for May 2001

WHAT THE FUTURE HOLDS

Amazon

Amazon stands at a critical juncture today. Profits have proven to be elusive. For the longest time, Jeff Bezos has argued that focusing on profits would mean giving up on growth opportunities and is not in the interest of the company. However, this has now changed with Bezos saying, "This is the right time to focus on the fundamental economics of our business, even if it means sacrificing growth."²² The vast majority of investments

Table 2. Amazon vs. eBay in January 2003

Home				
	Rank	Audience	Share	Time/Person
Amazon	7	25,930,103	21.21	0:15:25
eBay	5	28,430,707	23.25	1:36:29
Work				
	Rank	Audience	Share	Time/Person
Amazon	6	17,732,947	40	0:21:09
eBay	7	16,243,611	36.64	1:57:06
COMBINED				
		Audience		
Amazon		43,663,050		
eBay		44,674,318		

Source: Nielsen Net Ratings

in online firms have been written off. The company does not have adequate cash to operate for a long period of time. The company has accumulated a vast deficit.

However, this has not stopped the company from making new acquisitions and forming new partnerships. A key partnership was announced with Target on September 2001. Target agreed to use Amazon.com technology for order fulfillment and customer care services on its Target.com, MarshallFields.com, Mervyns.com and GiftCatalog.com websites²³. It acquired the operations of the defunct Egghead.com on December 19, 2001. This provides Amazon.com another channel to reach customers²⁴. The company also announced a partnership with Circuit City on December 11, 2001²⁵. Customers can now place an order for an electronics item at Amazon.com and pick it up at their local Circuit City.

The company continues to add innovative features on its web site. It added the “millions of tabs” feature in September 2002. Customers now have a tab that is their own and is completely customized to their needs. Amazon.com also added computers and e-books to its site.

One problem that analysts have identified is that the growth in the number of customers has slowed down. One analyst has been quoted as saying, “Everyone who wanted to buy a book online has already heard of Amazon.”²⁶ An expert within Amazon has come up with this solution—“Amazon should increase its holdings of best sellers and stop holding slow-selling titles.”²⁷ He sees this as the way to reduce costs and move toward profitability.

The company has attracted a \$100 million investment from America Online fueling speculation that this may be the first step towards a merger²⁸. Moreover, there is some sentiment that the long-term future of the company may be as a technology provider. This is really based on the alliance with Toys ‘R Us where Amazon runs the online storefront and Toys ‘R Us controls inventory and logistics.

eBay

The company is totally committed to the Internet. As CEO Meg Whitman put it:²⁹

“The Internet is not dead. When I talk about the future of the Internet many people say, ‘What future?’ But I believe the Internet’s best days are still ahead.”

eBay realizes that it has a very powerful place in the market with a loyal customer base. On January 17, 2002, the company announced that it was increasing the Final Value Fee which is the fee paid to the company when an item is sold³⁰. This had previously not been increased since 1996. Such increases in fees could be expected in the future leading to strong profits.

A clear direction of growth for eBay is in foreign markets. It is currently operating in eight of the top ten countries by online market size outside of the U.S. eBay currently has a presence in major Asian markets, Japan, South Korea, Singapore, and plans to expand to Taiwan and China soon. It is gaining users 50% faster in Europe than in the U.S., and gross merchandise sales are growing 135% faster³¹.

eBay has also identified m-commerce as a potential growth area. Specifically, eBay is working with Microsoft’s .Net initiative to provide access to its auction services to cell phone users³². With this technology, consumers will be able to bid on auctions using

their cell phones. This will make it even easier for users to participate in auctions and is expected to increase usage.

There are some indications that eBay feels that sticking to the auction format alone limits its growth prospects. As a result, it has said that it will pursue fixed-price retailing, something it started with its purchase of Half.com.

However, eBay will always be known as the auction site that was the last man standing in the dot-com movement due to prudent business approach.

ENDNOTES

- 1 This chapter has benefited from cases in my e-commerce textbook, *E-Commerce Management: Text and Cases*.
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- 3 <http://www.time.com/time/poy/intro.html>
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- 5 http://www.businessweek.com/magazine/content/01_13/b3725027.htm
- 6 <http://www.commonwealthclub.org/98-07bezos-q&a.html>
- 7 Cohen, A. (1999). *Coffee with Pierre*. December. <http://www.time.com/time/poy/pierre.html>.
- 8 http://www.worth.com/content_articles/0501_ceo_qa_whitman.html. Accessed December 2001.
- 9 <http://www.commonwealthclub.org/98-07bezos-speech.html>
- 10 Amazon.com 1999 Annual Report 10-K/A, p. 5.
- 11 <http://www.businessweek.com/1998/50/b3608001.htm>
- 12 The first quote is from http://www.businessweek.com/magazine/content/01_13/b3725027.htm
- 13 http://www.firstmonday.org/issues/issue6_5/wiggins/index.html
- 14 <http://www.thestandard.com/article/0,1902,23703,00.html>
- 15 http://www.thestreet.com/_cnet/stocks/timarango/1449487.html
- 16 This entire discussion is based on http://www.thestreet.com/_cnet/stocks/timarango/1449487.html
- 17 Thanks to my student, Eng Lim, for pointing this out.
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- 20 http://www.businessweek.com/1999/99_15/b3624066.htm
- 21 <http://news.cnet.com/news/0,10000,0-1007-200-340493,00.html>
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- 24 http://www.internetnews.com/ec-news/article/0,4_942931,00.html
- 25 http://www.iredge.com/iredge/iredge.asp?c=002239&f=2005&fn=CCInstorePU1211_810.htm
- 26 <http://www.nytimes.com/2001/07/24/technology/ebusiness/24AMAZ.html>
- 27 Hansell, S. A Front-Row Seat As Amazon Gets Serious. *nytimes.com*. May 20, 2001.
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- ³¹ Bjornsson, M. (2001, Spring). eBay's Position in the Industry. <http://www.cs.brandeis.edu/~magnus/ief248a/eBay/fiveforces.html>.
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