CASE STUDY: eBay

E-Commerce

Angeline Close

About eBay

eBay is The World’s Online Marketplace™. Founded in 1995, eBay created a powerful platform for the sale of goods and services by a passionate community of individuals and businesses. On any given day, there are millions of items across thousands of categories for sale on eBay, as well as on Half.com, eBay’s site dedicated to fixed price trading. eBay enables trade on a local, national and international basis with customized sites in markets around the world. [Source: eBay]

Things to read:

- Company Overview

People come to the eBay marketplace to buy and sell items across multiple categories, including antiques and art, books, business & industrial, cars & other vehicles, clothing & accessories, coins, collectibles, crafts, dolls & bears, electronics & computers, home furnishings, jewelry & watches, movies & DVDs, music, musical instruments, pottery & glass, real estate, sporting goods & memorabilia, stamps, tickets, toys & hobbies and travel. Members from all over the world buy and sell on eBay. Currently, eBay has local sites that serve Australia, Austria, Belgium, Canada, France, Germany, Ireland, Italy, Korea, the Netherlands, New Zealand, Singapore, Spain, Sweden, Switzerland, Taiwan and the United Kingdom. In addition, eBay has a presence in Latin America and China through its investments in MercadoLibre.com and EachNet, respectively.
eBay offers a wide variety of features and services that enable members to buy and sell on the site quickly and conveniently. Buyers have the option to purchase items in auction-style format or items can be purchased at fixed price through a feature called Buy-It-Now. In addition, items at fixed price are also available Half.com, an eBay company.
eBay is dedicated to its community of members, and has numerous services which enhance the trading experience. Our marketplace services include: online payments by PayPal; wide array of Buyer and Seller tools; and Preferred Solution Provider programs.

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Tools

- **eBay Toolbar**
  Use this browser companion to receive alerts before your listings end, and more.

- **eBay Anything Points**
  Pay for your purchases and seller fees with special offers from this free program.

- **eBay Anywhere - Wireless**
  Access eBay from your wireless devices.

- **eBay Affiliate Program**
  Earn cash by introducing your site visitors to eBay.

- **eBay Developers Program**
  Create Software applications on the eBay platform.

- **International Trading**
  Buy and Sell effectively across international borders.

Manage your Active Listings

- **Revise an item**
  Change your description, price, and more.

- **Add to item description**
  Add additional information to your listing.

- **Manage Counters**
  Manage or edit your Andale.com counters.

- **Change Gallery Image**
  Change the picture you want to appear in your gallery.

- **Bidder Management**
  Get tools to manage who can bid on or buy items.

- **Cancel bids**
  Remove unwanted bids on your item.

- **End your listing early**
  Close your listing before it's scheduled to end.

Manage your Ended Listings

- **Relist your item**
  List an unsold item again, or list a duplicate.

- **Request final value fee credit**
  Request final value fee credit.
Inquire about a Final Value Fee credit for a successful listing where your buyer did not complete the transaction.

Advanced Seller Recommendations

- **Shipping Center**
  Get shipping supplies and service.

- **Trading Assistants**
  Sell items for others.

- **Keywords on eBay**
  Add banners to promote your business.

- **Preferred Solution Provider Program**
  Find out how companies working with eBay help your sales.

- **Annual Report**

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**Consolidated Statement of Income Data:**

<table>
<thead>
<tr>
<th>Year Ended December 31,</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net revenues</strong></td>
<td>$ 86,129</td>
<td>$ 224,724</td>
<td>$ 431,424</td>
<td>$ 748,821</td>
<td>$ 1,214,100</td>
</tr>
<tr>
<td><strong>Cost of net revenues</strong></td>
<td>16,094</td>
<td>57,588</td>
<td>95,453</td>
<td>134,816</td>
<td>213,876</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>70,035</td>
<td>167,136</td>
<td>335,971</td>
<td>614,005</td>
<td>1,000,224</td>
</tr>
</tbody>
</table>

(in thousands, except per share data)
## Expenses:

<table>
<thead>
<tr>
<th>Expense Type</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and marketing</td>
<td>35,976</td>
<td>96,239</td>
<td>166,767</td>
<td>253,474</td>
<td>349,650</td>
</tr>
<tr>
<td>Product development</td>
<td>4,640</td>
<td>24,847</td>
<td>55,863</td>
<td>75,288</td>
<td>104,636</td>
</tr>
<tr>
<td>General and administrative costs</td>
<td>15,849</td>
<td>43,919</td>
<td>73,027</td>
<td>105,784</td>
<td>171,785</td>
</tr>
<tr>
<td>Payroll taxes on stock option gains</td>
<td>—</td>
<td>—</td>
<td>2,337</td>
<td>2,442</td>
<td>4,015</td>
</tr>
<tr>
<td>Amortization of acquired intangible assets</td>
<td>805</td>
<td>1,145</td>
<td>1,433</td>
<td>36,591</td>
<td>15,941</td>
</tr>
<tr>
<td>Merger related costs</td>
<td>—</td>
<td>4,359</td>
<td>1,550</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

| **Total operating expenses** | 57,270 | 170,509 | 300,977 | 473,579 | 646,027 |

| Income (loss) from operations | 12,765 | (3,373) | 34,994  | 140,426 | 354,197 |

| Interest and other income (expense), net | 1,799 | 23,833 | 46,337 | 41,613 | 49,209 |

| Interest expense | (2,191) | (2,319) | (3,374) | (2,851) | (1,492) |

| Impairment of certain equity investments | —      | —       | —       | (16,245) | (3,781) |

| Income before income taxes and minority interests | 12,373 | 18,141 | 77,957 | 162,943 | 398,133 |

| Provision for income taxes | (4,789) | (8,472) | (32,725) | (80,009) | (145,946) |

| Minority interests in consolidated companies | (311) | (102) | 3,062 | 7,514 | (2,296) |

| Net income | $7,273 | $9,567 | $48,294 | $90,448 | $249,891 |
Net income per share:

<table>
<thead>
<tr>
<th></th>
<th>Basic</th>
<th>$0.07</th>
<th>$0.04</th>
<th>$0.19</th>
<th>$0.34</th>
<th>$0.87</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Diluted</td>
<td>$0.03</td>
<td>$0.04</td>
<td>$0.17</td>
<td>$0.32</td>
<td>$0.85</td>
</tr>
</tbody>
</table>

Weighted average shares:

<table>
<thead>
<tr>
<th></th>
<th>Basic</th>
<th>104,128</th>
<th>217,674</th>
<th>251,776</th>
<th>268,971</th>
<th>287,496</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Diluted</td>
<td>233,519</td>
<td>273,033</td>
<td>280,346</td>
<td>280,595</td>
<td>292,820</td>
</tr>
</tbody>
</table>

- Company Financial Summary from Reuters
- eBay Auction Fraud Spawns Vigilantism Trend by Ina Steiner
- eBay Safe Buying Guide

Questions to consider:

- eBay is one of the only major Internet "pure plays" to consistently make a profit from its inception. What is eBay's business model? Why has it been so successful?
- Other major web sites, like Amazon.com and Yahoo!, have entered the auction marketplace with far less success than eBay. How has eBay been able to maintain its dominant position?
- What method does eBay use to reduce the potential for fraud among traders on its site? What kinds of fraud, if any, are eBay users most susceptible?
- eBay makes every effort to conceptualize its users as a community (as opposed to, say "customers" or "clients"). What is the purpose of this conceptual twist and does eBay gain something by doing it?
- eBay has long been a marketplace for used goods and collectibles. Today, it is increasingly a place where major businesses come to auction their wares. Why would a brand name vendor set-up shop on eBay?

Selected patents:

- 6,415,320 -- Information presentation and management in an online trading environment.
- 6,058,417 -- Information presentation and management in an online trading environment.
- Search real-time for new U.S. patents granted to eBay.