eBay in China:
International Business, Multinational Enterprise, & Cross Boundary Expansions

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Introduction

The story of how Jack Ma of AliBaba, one of China’s leading internet entrepreneurs, defeated the multinational company eBay’s expansion plans in his native country has become legendary in business management case studies. eBay once enjoyed a dominant position in the Chinese online market following their acquisition of the EachNet website in 2002. So and Westward (2009) estimated that eBay had “more than 2 million users and about 85 percent of the market” for online auctions in China following the EachNet acquisition, for which they paid approximately $180 million USD. (So & Westward, 2009) By 2007, “Taobao held 82 percent of the market, according to Analysys International” and eBay sold out of the EachNet venture, maintaining only its www.ebay.cn operations, which were not adopted in a widespread manner for domestic Consumer-to-Consumer (C2C) ecommerce transaction in China. (So & Westward, 2009) eBay can also be seen to have failed in the advancement of it PayPal strategy in China, which was surpassed by AliPay in usage by Chinese consumers. What is most striking in these examples is that eBay had the competitive advantages of pre-existing market dominance, brand name recognition, partnership with the dominant ecommerce auction website in China, and still failed in not only maintaining these market positions, but instead became a minority business operator in the Chinese domestic marketplace for online auctions.
Because TaoBao maintains the current position of marketplace dominance in online auctions in China that eBay enjoys in America for domestic online marketplace selling of new and used consumer goods in a C2C manner, credit for this success must go to the successful strategy of Jack Ma and AliBaba in China for outcompeting eBay in the local marketplace as well as placing blame on the market expansion policies led and advocated primarily by Meg Whitman, eBay’s former CEO who established the policies which led to the demise. eBay’s failure to respect the local dynamics of Chinese culture and its patterns of internet use, its centralized corporate strategy internationally, as well as its failure to understand the threat of TaoBao to its business model in China all led to the eBay’s cross-boundary expansion strategy internationally being unsuccessful in accomplishing its aims of foreign market establishment, increased company profit, and the creation of long-term shareholder value.

**eBay – Company History**

eBay is widely regarded as one of the leading success stories of the Web 1.0 era, or the “dot-com boom” period in the late 1990’s that saw many internet companies go public with very high amounts of stock market speculation. eBay was founded by Pierre Omidyar in 1995 and Meg Whitman joined the company in 1998 with prior experience at Hasbro and Harvard Business School. (Gomes-Casseres, 2001) eBay outmaneuvered other web companies such as Yahoo!, Microsoft, and Amazon.com to earn significant revenue from ecommerce sales based on the auction and C2C model. eBay requires listing charges for people to advertise their goods for sale on the site, charges an additional percentage of the sale as a commission, and also receives a service charge from credit card transactions via its PayPal services. The company is the leader in
the U.S. online auction market, and went public in 1998. As news sources reported, the
company’s stock soared at the time of the IPO, “shares of eBay went up 163.2 percent” on the
first day of trading to close at $47.375 with a market capitalization of $1.9 billion USD.
(Kawamoto and Grice, 1998) Today, eBay trades on the NADAQ exchange under the symbol
EBAY with a stock price of over $31 per share and a market capitalization of $41.4 billion USD,
and the stock has split a total number of four times since the Initial Public Offering. (Google
Finance, 2011) CEO Meg Whitman stepped down in 2008 to run for Governor of California and
further her political career. She was recently announced as the CEO of the Hewlett-Packard (HP)
Company, and is succeeded at eBay by John J. Donahoe as CEO.

eBay – International Strategy

Following the IPO in 1998, eBay began to develop an internationalization strategy that
would expand the online auction business model to other language and cultural markets abroad.
As CEO Meg Whitman said in an interview to CNN, eBay “had users from well over 50
countries” when she joined the company, and “they were using eBay.com in English—a
completely American site.” (Schonfeld, 2005) This fact represents one of the most significant
aspects to critique eBay’s cross-border internationalization plan, because the company chose a
path that would fragment and dilute its main website integration by combining a strategy of
acquiring local websites in C2C ecommerce internationally, breaking its own brand into
independent marketplaces in the variety of international markets, and failing to provide
consistent PayPal services in local markets due to global finance regulations and restrictions.
Similarly, as Erick Schonfeld (2005) reported, “Whitman likes to tell the story of how her 84-
year-old mother, a veteran Asia traveler, encouraged her back then to take on the Chinese market first, to which Whitman replied, ‘Mom, there are 40 million Internet users in Germany. There are 1 million in China. Forty million. One million.’” (Schonfeld, 2005)

Whitman cites this anecdote as relating to the decision of eBay’s management under her direction to focus on early international expansion in Germany rather than China, and undoubtedly this was highly influenced by the degree that the German internet users were ready for ecommerce with existing credit cards in 1999, as required by eBay billing. However, Whitman’s emphasis of the mass of users was clearly short-sighted as there is now more than six times the number of registered and active internet users in China than Germany’s entire population – with DCCI reporting an estimated 550 million registered internet users in China for the year 2012, whereas Germany’s entire national population is only 81 million people. (DCCI, 2011) This shortsightedness regarding the ecommerce market has long-term consequences for the company, considering eBay could have maintained an 80% market share in Chinese auctions at a current national market size Whitman should have been able to recognize in advance.

**eBay – The Chinese Market**

eBay’s initial market expansion plans in China under CEO Meg Whitman were developed through the purchase of the EachNet company, who in the year 2002 had established a dominant market position in online auctions in China. As Xiaoqu Luo and Mi Feng (2010) wrote, “EachNet was founded in 1999 by Chinese entrepreneurs Bo Shao and Haiyin Tan, American trained MBAs inspired by eBay’s success in the U.S.” (Luo and Feng, 2010) Meg
Whitman travelled to Shanghai in May 2001 to meet with Shao and his business partners at EachNet, with eBay acquiring initially a one-third stake of EachNet’s shares in March 2002, and then subsequently fully acquiring the company in China with the purchase of the remaining shares for $180 million. (Luo and Feng, 2010) Therefore, eBay’s cross-border market strategy in China can be seen as focusing on the acquisition of the leading company operating domestically in online auctions in the Chinese market, and through the joint-venture to introduce its own billing and commission system to the country. eBay’s management seemed convinced that because the auction site and C2C model were working successfully for it in America, and international sellers were joining the main site from many countries, that it could simply replicate this success in China by repeating the central business model locally. What eBay most underestimated was the ability of local business competitors to outmaneuver them in the same sector, which is what happened when Jack Ma of AliBaba launched TaoBao to take on eBay’s business model in China. In the end, this mistake cost the company a 75% loss of market share in China over a period of 5 years, forcing it to essentially leave the country and sell its stake in EachNet at a loss to the company and shareholders.

**eBay – Mistakes in the China Strategy**

In this same period that eBay managed to lose 75% of the market share that they bought in China online auctions with the EachNet acquisition, Jack Ma of AliBaba led his start-up company TaoBao to acquire over 80% of the Chinese C2C market. In this manner, eBay appears to have underestimated the ability to be outmaneuvered in the Chinese marketplace because they had such a large advantage in established market position and capital. Evidence suggests that
eBay tried to monopolize advertising contracts with Chinese websites to only promote their EachNet venture while prohibiting TaoBao advertisements on the same websites. (Luo and Feng, 2010) Jack Ma founded AliBaba as a Business-to-Business (B2B) ecommerce platform in 1999, and invested a $12 million USD equivalent in TaoBao in 2003 to specifically take on eBay in China. (Luo and Feng, 2010) Ma famously stated in 2005, “eBay may be a shark in the ocean, but I am a crocodile in the Yangtze River. If we fight in the ocean, we lose—but if we fight in the river, we win.” (Luo and Feng, 2010) This shows the degree to which Ma was developing AliBaba and TaoBao’s strategy to take on eBay’s dominance in the Chinese online auction market. Ma also established AliPay in China to take on PayPal’s dominance in online payments and credit card processing, whereas eBay fragmented their own brand again in the development of An Fu Tong working in association with Paypal. (Luo and Feng, 2010) In 2005, TaoBao signed agreements with Sohu.com and MSN China, increasing their market growth while eBay management again underestimated the competition’s ability to organize competing products to their own ecommerce offerings.

In the Chinese marketplace, one of the major contingents of eBay’s loss of the auction market share related to the company’s refusal to moderate or alter its traditional business model of user fees and commissions on auction sales. On the contrary, TaoBao offered a “freemium” business model that allowed domestic Chinese sellers to trade locally without requiring payments, commissions, and fees from the users. (Luo and Feng, 2010) In the end, this difference can be seen as one of the main factors leading to the success of TaoBao over eBay in attracting users to their respective websites. As Luo & Feng (2010) wrote, “In December 2006, eBay paid $40 million to Tom Online to hand over its control of eBay China—again to be called
Along with this decision, eBay would abandon its EachNet activities in China in 2006, and in 2007 remove PayPal completely from the EachNet website, leaving ‘An Fu Tong’ as EachNet’s “only online payment service” (Luo and Feng, 2010) By relinquishing its stake in EachNet, operating only the www.ebay.cn domain in China from its central offices in the USA, and seeing a 75% drop in its own business operations over a 5 year period, eBay exited the Chinese market having failed in its cross-border expansion strategy in the country. Jack Ma’s ability to “cut a hole in their pocket” of eBay by undercutting its business model and service offerings on the freemium model at TaoBao is one of the key reasons for this failure, as well as eBay management’s own mistakes and inefficiency in operations. (Luo and Feng, 2010) Nevertheless, Whitman’s “vision” of centralized operations from eBay’s corporate headquarters in California also led to a bureaucratization of corporate operations that left EachNet in China unable to respond quickly to TaoBao’s challenges.

**eBay – Analysis of Cross Boundary Expansion**

In analyzing eBay’s corporate strategy failure in the China expansion, one event remains as most symbolic of the mistakes made by eBay management that Jack Ma at TaoBao and AliBaba also took advantage of to attract customers. This event relates to Meg Whitman’s decision in 2004 to move EachNet web servers from China to the U.S. EachNet’s founder Bo Shao (2009) stated that, “What really caused eBay to lose its dominance in China was its decision to move its technology platform from China to the US.” (So & Westward, 2009) According to Shao, this plan was called “migration” by eBay corporate in internal communication, and was a total plan to “terminate EachNet’s homegrown technology platform
This plan was also described as the result of a “vision” by eBay CEO Meg Whitman who “wanted all eBay users, wherever they were, to be able to trade with each other”. (So & Westward, 2009) This plan required that eBay’s EachNet platform in China would be transferred to servers located at corporate headquarters in California for management, with the consolidation of global management decisions under the corporate CFO. (So & Westward, 2009)

According to Bo Shao of EachNet, “on the day of the move, traffic (of eBay China) dropped by half.” (So & Westward, 2009) The main reason for this loss of users was the increase in page loading times serving the web pages from America rather than China, which was exacerbated by the effects of “The Great Firewall of China” whereby the Chinese government scans and censors much of the web traffic coming into the country from foreign countries. (So & Westward, 2009) The increase in page loading times alone caused by the slower Chinese internet connections, the distance to the USA, and the existing IT infrastructure, all led users to turn-off the site in droves. The main beneficiary of this was eBay’s local competitor still operating from offices and servers in China, TaoBao. EachNet’s founder described the inefficiency of eBay’s management structure which was centralized through the California offices of Meg Whitman, when he stated, “It took nine months to implement any major changes and nine weeks to even change a word on the website as everything had to go through the headquarters technology development team.” (So & Westward, 2009)

Conclusion
It is obvious that any company operating in an environment as swiftly moving and innovative as Information Technology will fail if it takes 9 weeks of management bureaucracy just to change a single word on the website. Similarly, if a founding partner such as EachNet’s Bo Shao was complaining so heavily about eBay’s ownership and management team internally, it is not surprising that the competition were able to outmaneuver the company. CEO Meg Whitman underestimated the Chinese market from the beginning, failed to understand and adapt to the local dynamics, instead forcing the acceptance of a centralized policy across all of its international operations. eBay subsequently lost over 75% of its previous 80% market share in China to TaoBao led by CEO Jack Ma, additional business to the rise of AliBaba as a B2B portal, and further revenue opportunities to Alipay as an alternative to PayPal in the Chinese market as a credit card payments processing service. This provides a classic example in international business management and cross-boundary expansions of the local company TaoBao / AliBaba being able to respond quickly, innovatively, and at a lower cost to acquire market share dominance in ecommerce in an emerging market against the larger, better funded, and well established multi-national company eBay.
Sources Cited


