

EBay admits more work ahead for marketplaces unit

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(AP) -- EBay Inc. has been struggling to improve its online marketplace, and the company acknowledged Wednesday that it still has a long way to go. But eBay also highlighted the strength of its PayPal unit, predicting its business will double in size by 2011.

That kind of growth in online [payments service](#) could be a welcome boost for [eBay](#), which posted drops in revenue and profit in the last quarter and has seen its stock lose 80 percent of its value since late 2004.

Speaking during a day of analyst briefings, Chief Executive John Donahoe reiterated what many on Wall Street have long felt to be true: eBay's [marketplace business](#) has not kept up with the changing competitive landscape and customers' needs.

"This business has continued to fall short of our expectations. That's not acceptable to me or to you," he said.

Lorrie Norrington, president of marketplace operations, which includes eBay's namesake [auction site](#) as well as Shopping.com, StubHub and other e-commerce sites, explained that eBay determined last year that the auction format the company started with "had grown beyond its natural size" and was constraining the growth of eBay's "Buy it Now" fixed-price item business.

Norrington also noted another issue: eBay was letting anyone sell on its site, regardless of the experience they delivered to buyers. This was

hurting trust on the buyers' end, she said.

Donahoe and other executives outlined the latest changes eBay is making to fix these problems. These include focusing more on the market for items that may be offseason or that companies are trying to liquidate, and working to make searches on the site more visual and customizable within categories, such as clothing, for example.

"We're creating the new eBay. The pace of change will be accelerated, the pace of [innovation](#) will be accelerated," Donahoe said.

As revenue from [auctions](#) declines, eBay hopes to see more growth through its other formats, such as fixed-price items sold through eBay - which accounted for almost half the transactions on the site in the fourth quarter of 2008 - and items sold through the company's classifieds Web sites.

EBay also said it wants to improve trust by offering a buyer protection service to some top buyers, in which consumers who are not satisfied with a transaction will be offered their money back. EBay did not give more details about this move, which is expected to launch in April in the U.S. and U.K.

This will take time. The company expects marketplace growth to be slower than the broader e-commerce market in 2009, and keep pace with it in 2010. By 2011, though, eBay believes its marketplace will be growing faster than competitors.

The company forecast 2011 marketplace revenue of \$5 billion to \$7 billion. In 2008, eBay reported \$5.6 billion in marketplace revenue, so it is possible that eBay will generate less in 2011 than it did last year - something that could result from an ongoing decline in auction revenue.

The company is also facing a downturn in consumer spending amid the recession. Donahoe noted that the economic climate is driving more consumers to search for the best deal, which may include trading down to a used item sold on eBay. But he also pointed out that consumers in general are cutting back on buying discretionary items, which is a large portion of what is sold on the auction site.

The moves eBay management illuminated on Wednesday are the latest in a process the company began in early 2008, which introduced a number of changes to its fee structure, search results and feedback system that were meant to make the site better for buyers but which angered some sellers.

The company made a few more changes in the fall intended in part to help sellers. These consisted of letting U.S. sellers pay a flat price of 35 cents to list an unlimited number of identical items at a set price for a month at a time, and moving almost all transactions to electronic payment methods.

Donahoe said Wednesday that there was "nothing easy or popular" about the changes, but that they were necessary for the business.

In an interview with The Associated Press, Donahoe said he first had a sense back in 2006 or 2007 that to keep the marketplace growing eBay needed to change how it operated. At that time, he was head of the company's marketplaces segment.

"But we were faced with the innovator's dilemma. We were the largest, biggest, successful, profitable, and we knew we needed to make changes but the changes we'd made were always incremental because we didn't want to upset the apple cart," he said.

When he became CEO in March 2008, taking over for Meg Whitman, it

became clear to him that the company needed to embrace more aggressive, fundamental changes, he said.

These moves have not always made eBay sellers happy, but Donahoe said the company's relationship with them is improving, helped by eBay's efforts to communicate more in advance regarding changes it is working on.

Derek Brown, an analyst with Cantor Fitzgerald, said he got the sense from the presentations that the changes eBay implemented last year didn't quite yield the results it had hoped, and that eBay is now speeding things up in an effort to bring the market back to them.

"Are they making the right changes in the right order and will those changes bear the fruit they hope? It remains to be seen," he said.

And while eBay's name may still conjure images of online auctions, the company is hoping to turn more attention to its second-largest business - PayPal - which it expects to blossom significantly in the next few years.

PayPal President Scott Thompson told analysts Wednesday that the service should double in size in the next three years, processing between \$100 billion and \$120 billion in annual payments by 2011.

PayPal, which has 70 million active user accounts, processed \$60 billion in transactions in 2008. It runs local sites in 17 languages and accepts 19 currencies for transactions.

PayPal, which takes a cut of transactions, reported \$2.4 billion in 2008 revenue, while eBay as a whole had revenue of \$8.5 billion. The projected increase in PayPal's volume would translate into \$4 billion to \$5 billion in revenue in 2011, Thompson said.

PayPal plans to do this by continuing to grow on eBay itself and by increasing the service's use among merchants that are not part of eBay. PayPal wants to handle more mobile transactions and payments for businesses like banks, non-profits and online social networks.

"It doesn't matter where you go online today," Thompson said. "Almost everybody needs a fast, secure way to pay for something."

PayPal is still combining its operations with Bill Me Later, a company eBay bought in October that lets online retailers extend credit to shoppers without requiring detailed application forms. This will let people choose to pay for purchases immediately through PayPal or be billed down the road through Bill Me Later.

Also on Wednesday, eBay gave an update on its Skype Internet communication service, saying it expects revenue to double to more than \$1 billion in 2011.

Donahoe said that eBay is "tired of apologizing" for Skype. The company took a major writedown on the business in 2007, essentially acknowledging that the company drastically overvalued it when it bought Skype for \$2.6 billion in October 2005.

"I think it was an acquisition that had potential, we thought it would have synergy. In the fast-moving Internet world it's turning out not to. I'm being transparent about that," he said.

He wouldn't say whether eBay may eventually sell the unit, saying just that the company will "do what will allow Skype to maximize its success."

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