



26/5/2014

DOON UNIVERSITY, DEHRADUN
Semester Final Examination, Fourth Semester, 2014
School of Management

MBA
Course: MMS- 540: Services Marketing

Time Allowed: 3 Hours

Maximum Marks: 50

Note: Attempt All Questions from Sections A, B and C

SECTION : A (Attempt all Questions.)

(5x2=10)

Q1. Describe GAP Model with practical analysis on each GAP aspect?

Q2. Explain Servuction Model with reference to banking service ?

SECTION : B (Attempt all Questions.)

(5x2=10)

AMAZON.COM

Amazon.com likes to describe itself as Earth's Biggest Bookstore, yet it has no physical bookshops. Instead it's a virtual bookshop doing business on the Web and accessible 24 hours a day to anyone in the world who has a computer capable of connecting to the Internet. It opened its 'virtual doors' in the US in July 1995 and grew at an extraordinary rate. By mid 1998 it had made sales to more than 3 million customers in 160 countries, claiming it was by then the leading online shopping site. In addition to books, the company offered 125 000 music titles, ten times the number offered by the average music store. Ten years later Amazon.com had 88 million customers, sales of \$25 billion and a net income of \$9.2 million.

In addition to books, the company offers a wide range of music, electronics and other goods and it operates retail websites for other major retailers. In 2007 Amazon launched a cheap electronic reading device, the Kindle, on which owners can buy and download electronic books.

Through its website, Amazon customers could search for books by author, title, subject or keyword or browse for books in 28 subject areas. The software at its user-friendly website simulates a knowledgeable bookshop assistant. By indicating your mood, your preferences and other authors or artists you like, you can get recommendations for new books or music that you might enjoy. Customers are invited to send in their own reviews of books or music, which visitors to the website can then compare with reviews by professional reviewers. When a customer places an order through the website, the company arranges for physical items such as books, CDs or other products to be shipped directly from a warehouse. Customers selecting MP3 music or e-books can download the material onto the relevant product.

Questions :

- 1 Explain how technological innovation and internationalisation, two of the twelve forces for change in service management, contributed to the competitive advantage of Amazon.com.
- 2 Write your conclusion and recommendation for Amazon.com specific to this case study.

SECTION : C (Attempt All Questions)

Case Study: eBay thrives in the global marketplace

(30 Marks)

It's hard to believe that one of the most celebrated dot-coms has now celebrated its tenth birthday. Pierre Omidyar, a 28 year old French-born software engineer living in California coded the site while working for another company, eventually launching the site for business on Monday, 4 September, 1995 with the more direct name 'Auction Web'.

Legend reports that the site attracted no visitors its first 24 hours. The site became eBay in 1997 and site activity is rather different today; peak traffic in 2004 was 890 million page views per day and 7.7 gigabits of outbound data traffic per second.

Today, if eBay was a country, it would have the 9th largest population with its 35 million eBayers and would be the 59th largest economy in the world according to revenue. 2005, the 135 million customers.

eBay Mission

eBay describes their purpose as to 'pioneer new communities around the world built on commerce, sustained by trust, and inspired by opportunity'

At the time of writing, eBay comprises three major businesses:

1. **The eBay Marketplace** (approximately 70% of eBay net revenues in 2007). The mission for the core eBay business is to 'create the world's online marketplace'. eBay's SEC filing notes some of the success factors for this business for which eBay seeks to manage the functionality, safety, ease-of-use and reliability of the trading platform.
2. **PayPal** (approximately 25% of net revenues in 2007). The mission is to 'create the new global standard for online payments'. This company was acquired in 2003?
3. **Skype Internet telephony** (approximately 5% of net revenues in 2007).

This company was acquired in 2005. eBay has suffered an "impairment charge" from valuing the company too highly, but more recently it has started to provide the service for MySpace users.

Advertising and other net revenues represented just 4% of total net revenues during 2007

This case focuses on the best known, the eBay Marketplace.

eBay Revenue model

The vast majority of eBay's revenue is for the listing and commission on completed sales. For Paypal purchases an additional commission fee is charged. Margin on each transaction is phenomenal since once the infrastructure is built, incremental costs on each transactions are tiny – all eBay is doing is transmitting bits and bytes between buyers and sellers.

Advertising and other non-transaction net revenues represent a relatively small proportion of total net revenues and the strategy is that this should remain the case Advertising and other net revenues totalled \$94.3 million in 2004 (just 3% of net revenue).

eBay Proposition

The eBay marketplace is well known for its core service which enables sellers to list items for sale on an auction or fixed-price basis giving buyers the opportunity to bid for and purchase items of interest. At the end of 2007 there were over 532,000 online storefronts established by users in locations around the world.

Software tools are provided, particularly for frequent traders including Turbo Lister, Seller's Assistant, Selling Manager and Selling Manager Pro, which help automate the selling process; the Shipping Calculator, Reporting tools, etc. Today over sixty percent of listings are facilitated by software, showing the value of automating posting for frequent trading.

Fraud is a significant risk factor for eBay. BBC (2005) reported that around 1 in 10,000 transactions within the UK were fraudulent. 0.0001% is a small percentage, but scaling this up across the number of transactions, this is a significant volume.

eBay has developed 'Trust and Safety Programs' which are particularly important to reassure customers since online services are prone to fraud. For example, the eBay feedback forum can help establish credentials of sellers and buyers. There is also a Safe Harbor data protection method and a standard purchase protection system.

eBay summarises the core messages to define its proposition as follows:

For buyers:

- Selection
- Value
- Convenience
- Entertainment

For sellers:

- Access to broad markets
- Efficient marketing and distribution costs
- Ability to maximize prices
- Opportunity to increase sales

In 2007, the sellers proposition is described slightly differently:

- Access to broad markets
- Cost effective marketing and distribution
- Access to large buyer base
- Good conversion rates

eBay stresses the importance of developing its "Value-Added Tools and Services" which are "pre-trade" and "post-trade" tools and services to enhance the user experience and to make trading faster, easier and safer.

In January 2008, "eBay announced significant changes to its Marketplaces business":<http://investor.ebay.com/releasedetail.cfm?ReleaseID=290446> in three major areas: fee structure, seller incentives and standards, and feedback. These changes have been controversial with some sellers, but are aimed at improving the quality of experience. Detailed Seller Ratings (DSRs) enable sellers to be reviewed in four areas: (1) item as described, (2)

communication, (3) delivery time, and (4) postage and packaging charges. This is part of a move to help increase conversion rate by increasing positive shopping experiences. Powersellers with positive DSRs will be featured more favourably in the search results pages and will gain additional discounts.

eBay Competition

Although there are now few direct competitors of online auction services in many countries, there are many indirect competitors. eBay (2005) describes competing channels as including, online and offline retailers, distributors, liquidators, import and export companies, auctioneers, catalog and mail-order companies, classifieds, directories, search engines, products of search engines, virtually all online and offline commerce participants (consumer-to-consumer, business-to-consumer and business-to-business) and online and offline shopping channels and networks.

BBC (2005) reports that eBay are not complacent about competition. It has already pulled out of Japan due to competition from Yahoo! and within Asia and China is also facing tough competition by Yahoo! which has a portal with a broader range of services is more likely to attract subscribers.

Before the advent of online auctions, competitors in the collectibles space include antiques shops, car boot sales and charity shops. Anecdotal evidence suggests that all of these are now suffering at the hand of eBay. Some have taken the attitude of 'if you can't beat 'em, join 'em. Many smaller traders who have previously run antique or car boot sales are now eBayers. Even charities such as Oxfam now have an eBay service where they sell high-value items contributed by donors online. Other retailers such as Vodafone have used eBay as a means to distribute certain products within their range.

eBay Objectives and strategy

The overall eBay aims are to increase the gross merchandise volume and net revenues from the eBay Marketplace. More detailed objectives are defined to achieve these aims, with strategies focusing on:

1. Acquisition — increasing the number of newly registered users on the eBay Marketplace.
2. Activation — increasing the number of registered users that become active bidders, buyers or sellers on the eBay Marketplace.
3. Activity — increasing the volume and value of transactions that are conducted by each active user on our eBay Marketplace. eBay had approximately 83 million active users at the end of 2007, compared to approximately 82 million at the end of 2006. An active user is defined as any user who bid on, bought, or listed an item during the most recent 12-month period.

The focus on each of these 3 areas will vary according to strategic priorities in particular local markets.

eBay marketplace growth is also driven by defining approaches to improve performance in these areas.

First, category growth is achieved by increasing the number and size of categories within the marketplace, for example: Antiques, Art, Books and Business & Industrial.

Second, Formats for interaction. The traditional format is auction listings, but it has been refined now to include the 'Buy-It-Now' fixed price format. Another format is the "Dutch Auction" format, where a seller can sell multiple identical items to the highest bidders. eBay Stores was developed to enable sellers with a wider range of products to showcase their products in a more traditional

retail format. eBay say they are constantly exploring new formats for example through the acquisition in 2004 of mobile.de in Germany and Marktplaats.nl in the Netherlands, as well as our investment in craigslist, the US-based classified ad format. Another acquisition is Rent.com, which enable expansion into the online housing and apartment rental category. In 2007, eBay acquired StubHub an online ticket marketplace and it also owns comparison marketplace Shopping.com.

Finally marketplace growth is achieved through delivering specific sites localised for different geographies as follows: You can see there is still potential for greater localisation, for example in parts of Scandinavia, Eastern Europe and Asia.

Localised eBay marketplaces:

- Australia
- India
- South Korea
- Austria
- Ireland
- Spain
- Belgium
- Italy
- Sweden
- Canada
- Malaysia
- Switzerland

- China
- The Netherlands
- Taiwan
- France
- New Zealand
- United Kingdom
- Germany
- The Philippines
- United States

- Hong Kong
- Singapore

In its SEC filing, success factors eBay believes are important to enable it to compete in its market include:

- ability to attract buyers and sellers;
- volume of transactions and price and selection of goods;
- customer service; and
- brand recognition.

It also notes that for its competitors, other factors it believes are important are:

- community cohesion, interaction and size;
- system reliability;
- reliability of delivery and payment;
- website convenience and accessibility;
- level of service fees; and
- quality of search tools.

This implies that eBay believes it has optimised these factors, but its competitors still have opportunities for improving performance in these areas which will make the market more competitive.

Risk management

The SEC filing lists the risks and challenges of conducting business internationally as follows:

- regulatory requirements, including regulation of auctioneering, professional selling, distance selling, banking, and money transmitting
- legal uncertainty regarding our liability for the listings and other content provided by our users, including uncertainty as a result of less Internet-friendly legal systems, unique local laws, and lack of clear precedent or applicable law;
- difficulties in integrating with local payment providers, including banks, credit and debit card associations, and electronic fund transfer systems;
- differing levels of retail distribution, shipping, and communications infrastructures;
- different employee/employer relationships and the existence of workers' councils and labor unions;
- difficulties in staffing and managing foreign operations;
- longer payment cycles, different accounting practices, and greater problems in collecting accounts receivable;
- potentially adverse tax consequences, including local taxation of our fees or of transactions on our websites;
- higher telecommunications and Internet service provider costs;
- strong local competitors;
- different and more stringent consumer protection, data protection and other laws;
- cultural ambivalence towards, or non-acceptance of, online trading;
- seasonal reductions in business activity;
- expenses associated with localizing our products, including offering customers the ability to transact business in the local currency;
- laws and business practices that favor local competitors or prohibit foreign ownership of certain businesses;
- profit repatriation restrictions, foreign currency exchange restrictions, and exchange rate fluctuations;
- volatility in a specific country's or region's political or economic conditions; and

- differing intellectual property laws and taxation laws.

eBay Results

eBay's community of confirmed registered users, has grown from around two million at the end of 1998 to more than 94 million at the end of 2003 and to more than 135 million at December 31, 2004. It is also useful to identify active users who contribute revenue to the business as a buyer or seller. eBay had 56 million active users at the end of 2004 who they define as any user who has bid, bought, or listed an item during a prior 12-month period.

Questions :

- Q1. Write an excerpt in (200 words) for the case study.
- Q2. Describe the service business model of E-bay.
- Q3. Write recommendation and conclusion for the case.