



eBay and Skype:

Why would an online auction company buy an Internet telephone company?

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INTRODUCTION & BACKGROUND

eBay's decision to acquire Skype took analysts and media by surprise



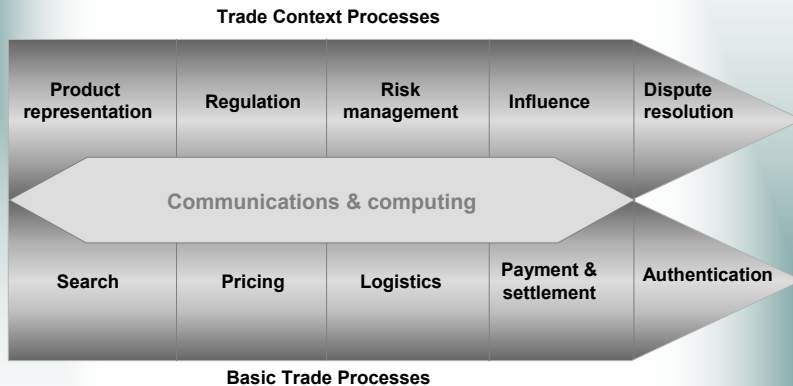
- eBay's announcement in September 2005 to acquire Skype Technologies S.A., a global Internet communications company, for \$2.6 billion (€2.1 billion) raised the question:
 - **Why would an online auction company buy an Internet telephony company?**
- eBay believes that Skype will "**strengthen eBay's global marketplace and payment platform**, while opening several new lines of business and creating significant new monetization opportunities" (eBay, Sept. 12, 2005).

A process-based analysis



- Based on **Exchange Process Model** (Kambil & van Heck 1998) and earlier research on the role of multi-access technologies in online auctions (Vesa & van Heck 2003, 2005a, 2005b).
- Demonstrates how the **integration of Voice-over-IP technology** (in this case the Skype service) into eBay's online auction platform has **potential to enhance exchange processes**.
- Traditionally **voice has not been very well integrated into exchange processes** in online auctions despite the richness of voice as a communication media.

The Exchange Process Model (Kambil and van Heck 2002)



Kambil and van Heck 2002, p. 27

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Communication and computing process

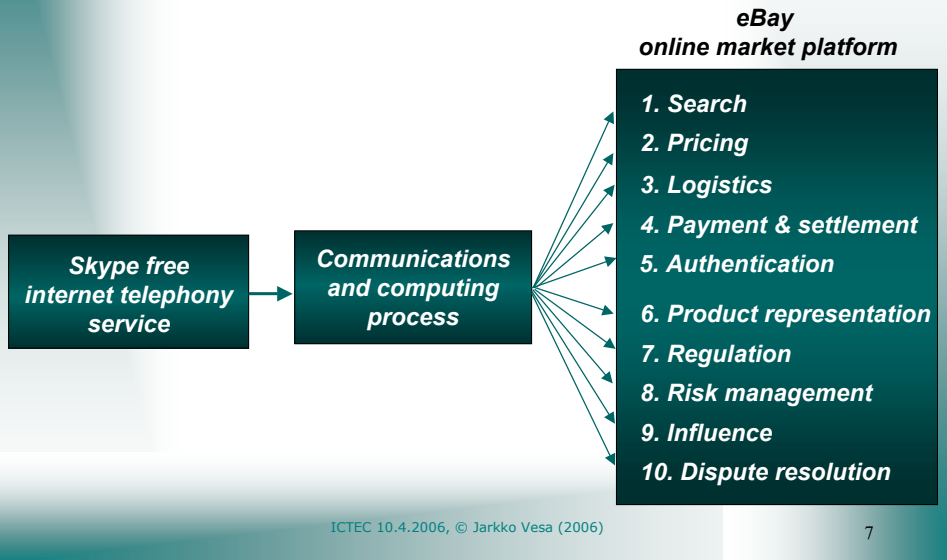


- According to Kambil and van Heck (2002), "the communications and computing process **enables integration of all other trading processes** into specific markets for buyers and sellers" (p. 27).
- Communications and computing processes
 - **attributes of the market platform**
 - how much and what kinds of **benefits the platform provides for various stakeholders**.

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The aim is to understand the impact of Skype on eBay's processes



Mapping of eBay services with exchange process model -- close to 200 screens



The diagram maps various eBay services to the 10 processes listed in the previous slide. Key annotations include:

- 1. Search:** Favorite searches, Categories, Boolean, Selection by price (min \$ - max \$), Selection by seller, Favorite sellers, Search by location, availability, Items Near Me' (distance, zip code).
- 2. Pricing:** Selection by price (min \$ - max \$).
- 3. Logistics:** Shipping to USA.
- 4. Payment & settlement:** Payment.
- 5. Authentication:** ID Verify (U.S. only, costs \$5).
- 6. Product representation:** Picture, Verbal description.
- 7. Regulation:** Ask question.
- 8. Risk management:** Positive Feedback, ID Verify (U.S. only, costs \$5).



Company overviews: eBay and Skype

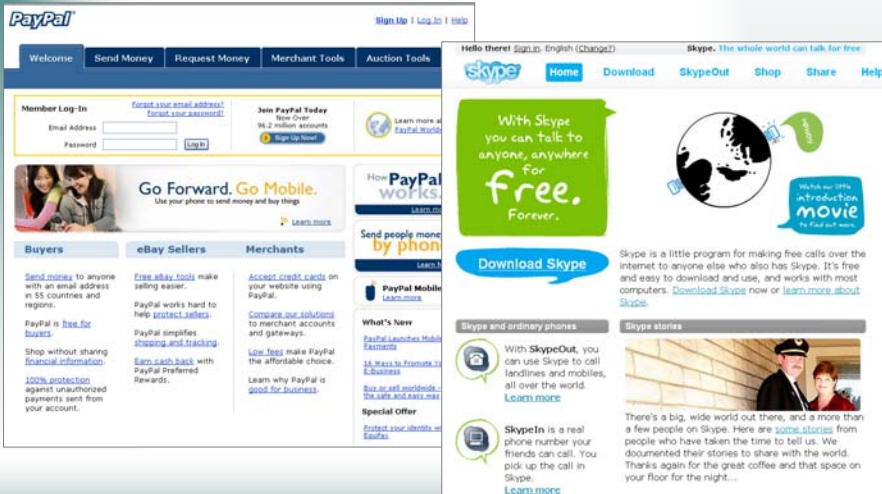
eBay - The world's Online Marketplace®



- Founded in 1995, local operations in 24 countries.
- **Over hundred million registered members.**
- A **market maker** "for the sales of goods and services by a diverse community of **individuals and small businesses.**" ¹⁾
- "People spend more time on eBay than any other online site, making it the **most popular shopping destination on the Internet.**"¹⁾
- The mission: "to provide a **global trading platform** where practically anyone can trade practically anything." ¹⁾
- eBay sells some **34 per cent** of its merchandise **at fixed prices.** ²⁾

¹⁾ www.ebay.com
²⁾ FT, Feb 8, 2006

eBay is enhancing its platform with services like PayPal and Skype



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A simple synergy test



How many of you are eBay users? _____ %

How many of your are Skype users? _____ %

How many of you are PayPal users? _____ %

What eBay is targeting at? PayPal accounts for Skype users, Skype buttons on eBay etc.

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eBay vs. Google, Amazon and Yahoo: Increasing specialization...



- Meg Whitman, CEO of eBay, believes that eBay and the other internet giants will end up specializing:
 - **eBay / PayPal / Skype** = e-commerce, payment, voice communication
 - **Google** = search
 - **Yahoo!** = content
- In reality, there are engaging in "increasingly fierce competition as they try to match their rivals' services" (e.g. Google Base, a classified advertisements website competing with eBay).

Financial Times, Feb 8, 2006

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Skype - the Global Telephony Company™



- Skype is **a piece of software** that allows its users to make **free calls over the Internet** to anyone else using the same software.
- The Skype software was created by **Skype Technologies S.A.** which was acquired by eBay in fall 2005.
- The **first Windows version** of Skype was introduced in **July 2004**.
- In **September 2005** Skype had about **53 million users** (Fortune, 2005).
- The Skype service is based on a **proprietary peer-to-peer Internet telephony network**, and it is competing against open VoIP protocols such as SIP and H.323 (www.wikipedia.com).
- The Skype user directory is **entirely decentralized and distributed**.
- Skype offers superior functionality and ease of use.

www.skype.com, www.wikipedia.com

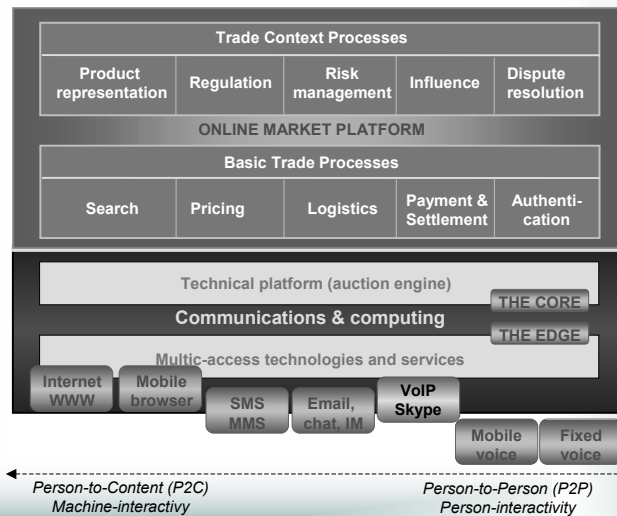
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Analysis of the eBay online market platform

Framework for analyzing the role of Skype in eBay online market platform



1. Search process

Favorite searches

Categories

Boolean

Selection by price (min \$ - max \$)

Selection by seller

Favorite sellers

Search by location, availability

"Items Near Me" (distance, zip code)

Retrieved Nov. 5, 2005

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6. Product presentation

8. Risk management

3. Logistics

4. Payment & settlement

5. Authentication (product)

Verbal description

Picture

Ask question

3.

8.

5.

4.

2.

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Before - after comparison of exchange processes - part I



Process	Current eBay platform	eBay with Skype
1. Search (+/-)	<i>Powerful search engine (keywords, Boolean etc.), categories; search by price range, location, items near the buyer, specific currency, lots, Buy It Now, PayPal, Gift Items; search by number of bids or by remaining time etc.</i>	<i>No impact</i>
2. Pricing (+/-)	<i>Bidding via automated forms, sales history, reserve price, multiple auction mechanisms (English auction, Buy It Now, fixed price), bidding agents, completed listings filter etc.</i>	<i>No impact</i>
3. Logistics (+)	<i>Sellers have to communicate the location of their goods and a proposal for the logistical settlement (terms & conditions and the cost of shipping), shipping labels with PayPal etc.</i>	<i>Ability to contact the other party and to <u>discuss the details of logistical arrangements</u> could be integrated into the logistics processes.</i>

Vesa (2005)

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Before - after comparison of exchange processes - part II



Process	Current eBay platform	eBay with Skype
4. Payment and settlement (+)	<i>Traditional payment methods (credit cards, personal checks, cashier's checks and money order) and PayPal online payment option using credit card or bank account. Pay Now button etc.</i>	<i>In case of missing payment, members of eBay may <u>request the buyers contact information</u>, including telephone number. Integrating Skype into the process <u>lowers the cost</u> and in some cases makes it <u>easier to reach the other party</u> (presence info).</i>
5. Authentication (+)	<i>Credibility of buyers and sellers: Feedback, verification during registration, ID Verify, PayPal Verification. Verifying the quality of the goods: Letter of Authenticity, 3rd party physical inspection.</i>	<i>Possibility to contact the other party by using the Skype service <u>helps to authenticate</u> both the seller or buyer, but also to <u>obtain more information about the item sold</u>.</i>
6. Product representation (+)	<i>Text, pictures, listing upgrades (bold, border, highlight), single item in two categories, display on eBay's home page, additional pictures, picture show, supersize picture, Seller Tools etc.</i>	<i>With <u>Skype telephone or instant messaging service</u>, eBay could offer a <u>rich and real-time communications</u> when buyers want to ask about the product.</i>

Vesa (2005)

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Before - after comparison of exchange processes - part III



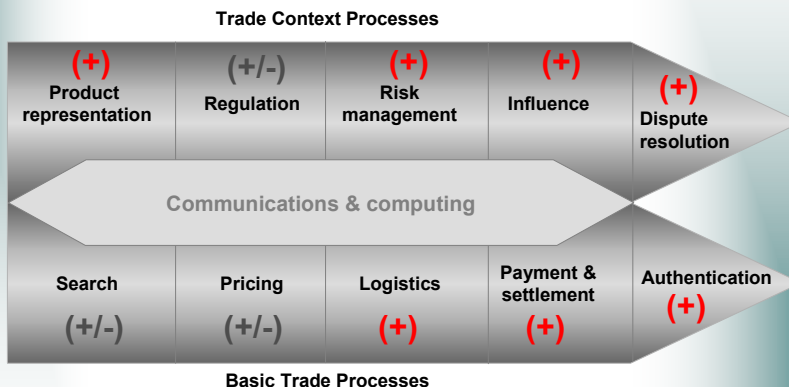
Process	Current eBay platform	eBay with Skype
7. Regulation (+/-)	<i>Warning against offensive or illegal material and shill bidding; illegal or offensive items reported to the authorities; eBay automatically tracks members' behavior on the Site, etc.</i>	<i>No impact</i>
8. Risk Management (+)	<i>Participants have to register. In some cases additional financial information is required (users of free email), along with physical address check; tracking behavior on the site; ID Verify; member profiles with ratings; Reviews & Guides, etc.</i>	<i>Integration of Skype into eBay's platform would help reduce risks, but this would happen <u>indirectly, via other processes</u> such as authentication and product representation processes.</i>
9. Influence (+)	<i>General and topic specific forums and chat rooms, Feedback Forum, eBay blog, eBay Cafe, penalties, incentives, etc.</i>	<i>Skype could be one more tool for communications between members, "<u>deterrent</u>" against misbehavior.</i>
10. Dispute Resolution (+)	<i>Feedback Forum, dispute resolution services & Resolution Center (PayPal), Security & Resolution Center, Disputes Console, etc.</i>	<i>Skype could <u>support dispute resolution</u> process between members, and between the market maker eBay and the members</i>

Vesa (2005)

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The Impact of Skype on eBay's online market platform processes



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Mapping exchange processes and friction points of e-commerce identified by eBay



Friction point	Solution	Process (Kambil & van Heck 2002)
Trust & safety	Feedback	(8) Risk management (9) Influence
Description	Pictures	(6) Product representation
Payments	PayPal	(4) Payment & settlement
Shipping	USPS Priority Mail	(3) Logistics

Mapping exchange processes and friction points of e-commerce (Vesa 2005)

Communication is the key to e-commerce



- The online transaction process requires various **communication points** along the way: Q+A before purchase, closing transaction, order status etc.
- **Five million e-mail messages** are initiated **per day** between eBay buyers and sellers, and 30% of eBay bids take place in the last two hours.
- eBay sees Skype as "leap forward in transaction flow - offering **instantaneous, private and free communication** with rich experience and advanced functionality (eBay, Sep. 12, 2005, slide 26).
- The global online marketplace has "historically **removed friction**" from the world of e-commerce.

eBay wants to create "an unparalleled e-commerce and communications engine"



- By combining eBay online market platform, PayPal online payment service and Skype free Internet telephony services eBay believes it will create "an **unparalleled e-commerce and communications engine**" (eBay, 2005).
- The analysis presented in this article supports the view that by integrating the Skype with its online platform, eBay is in the position of bringing **IP-based communication services closer to the core of the auction platform**.
- Communication is a crucial element of online markets.
- VoIP service like Skype can offer **better functionality** and thereby **add value to various stakeholders**.

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Voice removes friction in trading



"We want to increase the velocity of trading. If the buyer and seller can talk to each other, especially with high-end items, we think it can accelerate trade"

Meg Whitman, CEO eBay

FT Feb 8, 2006

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Discussion & Conclusion

Missing processes in the Exchange Process Model (Kambil & van Heck)



- **Learning**
 - eBay offers plethora of ways of learning (including the eBay University) how to use eBay efficiently.
- **Community Building**
 - one of the secrets of eBay seems to be a **strong community effect**, supported by *virtual meeting places* such as The eBay Cafe, chat rooms, The eBay Blog, and *real-life rendezvous* like eBay Live! meetings
- **Customer care / customer service**

eBay seems to be on the right track - but was it necessary to buy Skype?



- The goal of the article was to shed new light into "the hodgepodge of ideas" (Fortune, Oct. 3, 2005, p. 11) eBay offered on how it might build Skype into auction business.
- The analysis presented in this article confirms that eBay's justification is based on the characteristics of online auction market, i.e. communication playing a vital role in the process.
- One could, of course, question whether it was necessary for acquire Skype in order to achieve the synergies between internet telephony and its online market platform - but that's another story.

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