



Chapter III

A Comparative Analysis of eBay and Amazon

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ABSTRACT

Even though Amazon.com has received most of the initial hype and publicity surrounding e-commerce, eBay has quietly built an innovative business truly suited to the Internet. Initially, Amazon sought to merely replicate a catalog business model online. Its technology may have been innovative- but its business model was not. On the other hand, eBay recognized the unique nature of the Internet and enabled both buying and selling online with spectacular results. Its auction format was a winner. eBay also clearly demonstrated that profits do not have to come in the way of growth—an argument that Bezos never tired of making. Amazon was initially focused on BN.com as a competitor. Over time, Amazon came to recognize eBay as the competitor. Its initial foray into auctions was a spectacular failure. Now, Amazon is trying to compete with eBay by facilitating selling and strengthening its affiliates program.

INTRODUCTION

It is odd in some ways to be comparing Amazon and eBay. To most people, Amazon is a retailer selling products to consumers and eBay is an auction house where consumers congregate to sell to one another. However, a keen analysis reveals that these two companies are direct competitors. For instance, the only site to receive more visitors than Amazon during the 2002 holiday season was eBay. It is now well known that Amazon considers eBay to be its biggest competitor.

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Amazon.com is perhaps the company that is most closely tied with the e-Commerce phenomenon. The Seattle, Washington based company has grown from a book seller to a virtual Wal-Mart of the Web selling products as diverse as music CDs, cookware, toys, games, tools and hardware. At the same time, the company now offers selling services either through auctions or by a fixed-price format. The company has also become a major provider of technology to partners such as Toys 'R Us and Target.

Amazon has grown at a tremendous rate with revenues rising from about \$150 million in 1997 to \$3.9 billion in 2002. However, the rise in revenue has led to a commensurate increase in operating losses. At the end of 2002, the company had a deficit (i.e., cumulative losses) in excess of \$3 billion.

On the other hand, eBay has had a focused and slower growth path. The core nature of the company's business has always been auctions. Even though the company has grown rapidly, it is still a relatively small company with revenues of about \$750 million.

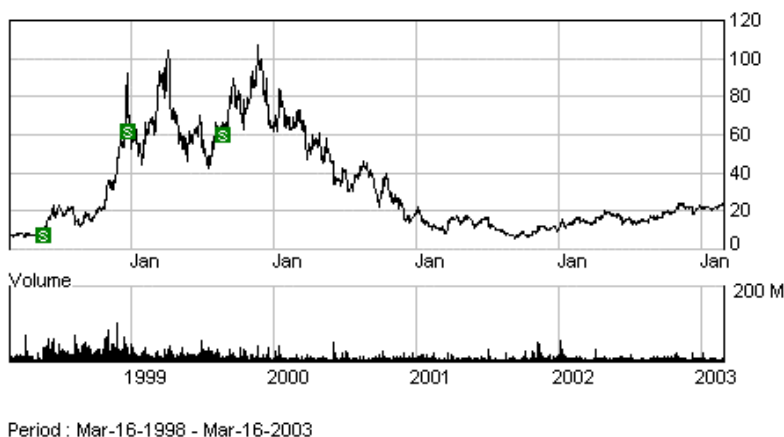
Starting with the Initial Public Offerings (or IPOs), the stock trajectories of Amazon and eBay have provided an interesting contrast. On the first day of its IPO, Amazon's stock rose from the target price of \$18 to \$30. By a strange coincidence, eBay shares were also priced at \$18. However, the closing price was much higher—\$47.37.

Since then, the stock prices have gone in opposite directions (see Figures 1 and 2). Amazon's share price path is perhaps the biggest symbol of the rise and fall of the dot-coms. On the other hand, eBay's steady price path reflects the consistent profitability of the company. Amazon.com has never had an entire year that was profitable. It has been profitable in the fourth quarter of 2001 and 2002. The stock prices clearly reflect this.

While Amazon had the glamour of growth in sales revenue, eBay was the steady plodder that nobody noticed in the initial years. Most dot-coms wanted to replicate the model of Amazon. It was very common for a dot-com start-up to proclaim that it wanted to be "the Amazon of XYZ" product category. Pets.com wanted to be the Amazon of pet food, for instance.

Fundamentally, these two companies provide us with two interesting models of how to grow a company. Bezos, the founder of Amazon, has famously argued that excessive

Figure 1. Amazon.com's Stock Price Path.



Source: Quicken.com, Accessed on March 17, 2003

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