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WEEKLY INSIGHT
Yahoo!-eBay alliance in European auctions
The Internet portal Yahoo! is shutting down its primary European auction sites within the next six weeks, ceding a once-promising business to its dominant rival eBay. Despite the fact that Yahoo! will maintain some of its auctions services in the Old Continent, the pact can be seen as an admission on Yahoo’s part that the company has been defeated in the online auction sector.
Under the agreement, which will come into effect this week, both firms will exchange advertising campaigns and Yahoo! will receive an injection of capital for the transfer of its auction’s users. (From Reuters) [Full Story]

Highlights
- Launched in 1999, Yahoo’s auction business failed to take hold in Europe. It trailed behind eBay and European auctioneer QXL Ricard in most countries in which it operates.
- Within the next several weeks, Yahoo will stop accepting new listings for its auction sites that serve France, Germany, Italy and Spain. Additionally, it will close its auction site that serves the United Kingdom and Ireland.
- Founded in September 1995, eBay is something of a rarity. In March 2000 it was the first dot-com company to become profitable on a fully accounted basis. In 2001 it got 90 million US$ in revenues. Nowadays it holds a base of 46 million users and a market share that, according to some analysts, exceeds 80%.
- In the last two years, eBay has capitalized its strength in US to promote its international expansion.
year eBay acquired the French iBazar SA, one of the most important European auction sites. But eBay stumbled badly in Japan, finally exiting the market earlier this year after being unable to dent Yahoo's early lead there.

**Press Review**

**From Ecommerce Times**
"As they say in the Highlander movies, there can be only one," Rob Rosenthal, senior analyst at IDC, told the E-Commerce Times. "This is a business model that **rewards being the biggest**, and it doesn't make sense to have more than one or two doing the same thing."

(...)
"In general, the **portals in Europe** have been under **enormous cost pressure**, and some have even shut down because of it," Martha Bennett, a vice president in Giga Information Group's UK office, told the E-Commerce Times. (...) Bennett said: "Running a portal in Europe is very difficult, because you have to **support multiple languages**, you have to get **resources in every country**, and you have to **compete with known national players**. You can't just take a site from one country and scale it to fit another country."

[Full Story]

**From New York Times**
"The auction market is a **winner-takes-all market**, with one player dominating all the others," said Olivier Beauvillain, an analyst with Jupiter Research in Paris. "In Europe, Yahoo came late to the game and did not manage to attract enough exposure."

[Full Story]

**From News.com**
"Yahoo has had its own struggles with auctions. The company's U.S. auction site was **once seen as eBay's biggest threat**. But that threat dissipated when listings on the site fell by more than 80 percent after Yahoo introduced fees on its auction site early last year. Although Yahoo has since changed its fee structure and revamped its whole shopping area, its auction site has never recovered, and its listings are a fraction of eBay's."

[Full Story]

**Commentary by...**
Fabrizio Noboa, IESE doctorate and EBCenter researcher

**Auctions: the power of the community**

Quite often businesses are based not so much on what is sold but in who sells it, to whom and how (at what price) he does it. This is what happens in the traditional market of auctions that has given recognition to firms such as Sotheby's or Christie's. Far from that selective nature, the online auctions business is also based on the quality of its virtual community: the group of agents who transact through the same website.

Buyers go to a certain site because they know that the probability of finding the object of their desire is very high. Sellers do it because they are convinced their products will get enough bids. Both share the trust that there is the necessary volume of agents willing to compete for a product so that it will be assigned, most probably, to the highest bidder. On the contrary, a virtual community with little volume of buyers, few sellers or not many products doesn't enable a proper auction to take place.

The agreement between eBay and Yahoo! emphasizes the importance of "quality" in the virtual community. While eBay has been able to convince 46 million users from all over the world focusing on one sole activity, with 237 million of unique users, Yahoo's crowded but assorted community doesn't seem very interested in buying or selling objects to the highest bidder.

Getting out of auctions -a payment service- means losing a source of income for Yahoo! in a delicate moment of its finances because of the advertising recession. But the decision will allow the portal to focus on more profitable services for its community, therefore it shouldn't affect the company negatively. What's more,
the alliance with eBay implies an injection of cash (not revealed) for the transfer of users, as well as a multimillion dollar advertising exchange.

On the other hand, eBay, which faces some problems in its European strategy, will benefit from the new users of Yahoo who are really interested in auctions. To the whole market of online auctions, this alliance means another step in the process of natural concentration of the sector, a minority sector whose power resides in the community.

REPORTS

Internet users punish bad online experience
Title: The Customer Expectation
Source: Enterpulse
Date: May 2002
Abstract: Two-thirds of Internet users rarely-if ever-return to a company's site once they've had a bad experience.

This is the major finding of a survey about usability conducted by a professional services company Enterpulse, that suggests that businesses are missing opportunities with customers they didn't even know they had.

According to the survey, almost 80% of users feel that business websites tend to be designed from an internal perspective versus an end-user perspective. 95% of internet users feel it is extremely important that the information they need be accessible, up-to-date, and easy to find. In addition, 90% of the Internet users said they expect companies to respond to questions submitted via Web sites within 24 hours. Nearly 60% wanted responses made in less than eight hours.

In the experts' opinion, companies creating a seamless Web experience are already realising great benefits, including enhanced customer loyalty, reinforced company brand and image, better sales from first time and repeat customers. [Full Story]

What kind of marketplace do you need?
Title: E-Commerce Exchange. Making informed decisions
Source: Caps Research and McKinsey&Company
Date: May 2002
Abstract: Over the past two to three years, three marketplace models have emerged to leverage the opportunities presented by collaborative e-business: public e-marketplaces, such as theoilsite.com; industry-sponsored marketplaces (consortia), such as Covisint; and private exchanges, such as DaimlerChrysler.

Caps Research and McKinsey&Company have elaborated a survey to analyse the functionality of industry-sponsored and private marketplaces and what kind of marketplace a company needs.

According to the survey, consortia functionality is largely focused on purchasing applications and the basic architecture that supports cross-enterprise collaboration. The most frequently available purchasing tools include on-line purchase order generation and routing, reverse auctions, on-line catalogues, and e-requests for proposal/e-requests for qualification.

The procurement tools developed and/or managed by private exchanges are, in some ways, similar to those of consortia, though they leverage individual organisation opportunities rather than cross-enterprise opportunities. In addition to developing and/or managing purchasing tools, private exchanges are building out a diverse array of tools addressing other value chain processes. These tools vary from one company to another, but include product development, supply chain network integration, and sales and marketing.

Consortia are best suited to providing tools where there is an opportunity to leverage technology costs across companies in an industry and where cross-enterprise collaboration is needed to capture the benefits from addressing a process. Private exchanges are best suited to addressing tools where there is
benefit from competitive advantage and where there is no consortia, or the consortia does not currently have the desired tools. [Full Story]

**The Internet helps information providers to tap into SME**

**Title:** Business Information: Turning small business into big business  
**Source:** Booz Allen Hamilton  
**Date:** May 2002  
**Abstract:** Information providers cannot and should not ignore the small to midsize professional market, as it presents significant potential for getting marginal revenues, more fully leverage content investments and a more defensible position versus current and future competitors. That is the opinion of Booz Allen Hamilton consulting, which considers small and midsize professional firms as a segment with a limited budget and a significant barrier to information purchase cost.

Many providers have developed low-priced products that cater to the information needs of the smaller firm market. However, they have hailed to alter their supporting business models to efficiently serve a mass, fragmented customer set. New technologies can be used to cost-effectively generate demand and wring marginal revenue from the price-sensitive customer. The first and necessary step to building an offering for the small professionals firm market is customer segmentation. [Full Story]

**Outsourcing is increasingly strategic**

**Title:** Adventures in Outsourcing  
**Source:** CIO  
**Date:** May 2002  
**Abstract:** Outsourcing is increasingly a strategic, company-wide initiative and viewed less as an operational IT issue. Firstly, respondents outsourced IT infrastructure (17%), website hosting (15%), business process application development (13%) and help desk (13%). Currently they have added networking/communications services (29%) and data centre operations (27%).

The slight majority (51%) of respondents reported that their company began outsourcing in the past three years. The key factors behind this were a lack of internal staff (32%), a need to lower ongoing costs (29%) and to improve quality (20%). Companies today are looking for business impact such as improved quality (29%) and reduced time to market (21%). The survey also highlights that 77% of CIOs will increase their outsourcing spending in 2002 from 2001 levels. [Full Story]

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**COMPANIES**

**Microsoft will spend $2 billion on an online games service**

The giant of Redmond will invest $2 billion over the next five years in its effort to make Xbox the leading video game console. The company will build out the network for an online Xbox gaming, dubbed Xbox Live. Microsoft will sell a $49.95 Xbox Live package, which includes a 12-month subscription to the service and a headset microphone that connects to the Xbox for voice chat. The fee does not include a broadband connection, which is required to subscribe. From News.com. [Full Story]

**AOL subscribers wanted**

MSN online service is spending $10 million in its latest effort to woo away Internet subscribers from rival America Online, a unit of AOL Time Warner.

While AOL is far ahead of MSN with more than 34 million subscribers compared to MSN's 7.7 million access subscribers, the software giant is trying hard to narrow the gap.

As part of the campaign, MSN is also willing to give those who switch $50 after they have spent three months with MSN. The $10 million campaign is expected to last three months. From Reuters. [Full Story]
WE RECOMMEND

Create value for the client

The value chain, business process reengineering, the extended enterprise are 20th-century industrial principles that assume that internal cost efficiency is the source of value creation, not customers’ experience. However, markets are not passive; clients are now becoming more like forums, largely because of the Internet. They own new powers: information access, a global view, networking, experimentation and activism. Companies must learn to **co-create value with their customers**, based on four building blocks for creating value: dialogue, access, risk reduction and transparency. In this way a new **value creation paradigm appears, based on customers’ experience**. 

*Strategy + Business* advises the identification of the factors that determine experience. They are called the elements of exchange and they are how transactions are managed, how choices are determined, how the consumption experience is staged and how price and performance relate. From *Strategy + Business*. [Full Story]

Great historical technological disasters

In all endeavours, but especially in technology, failures can make better teachers than spectacular successes. MIT Technology Review shows that, though technologies change, many of the **factors that make disasters go spectacularly wrong** are surprisingly consistent: impatient clients who won’t hear "no"; shady or lazy designers who cut corners; excess confidence in glamorous new technologies; and, of course, **good old-fashioned hubris**. In 1998, a small improvement in comfort in the Inter City Express line near Eschede derailed a carefully managed system. That proves that when new, high-performance technology is inserted into older infrastructure built to operate with a greater margin of error, a tragedy can occur.

The authors also highlights the AT&T crash, a software disaster everyone thought couldn’t happen. The company did not keep their redundancy sufficiently insulated from the main system; it could have retained the old software in its backup system until it had thoroughly road-tested the new.

Another famous disaster was the great 1965 Northeast blackout. The causes were technical and it illustrates just how difficult it can be to predict how vast, complex networks will actually work. From *Technology Review*. [Full Story]

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