The introduction of a competing business model: the case of eBay

Christian Comberg* and Vivek K. Velamuri

HHL Leipzig Graduate School of Management,
Jahnallee 59, 04109 Leipzig, Germany
Email: christian.comberg@hhl.de
Email: vivek.velamuri@hhl.de
*Corresponding author

Abstract: In today’s highly competitive business environment, the reasons for companies to engage in business model innovation (BMI) are manifold. The pressure on firms to innovate their business models results in either an adaptation of the incumbent business model, or the introduction of a new competing business model. Based on extant theory, we found that the reasons for a firm to engage in BMI can be clustered into three categories: 1) increased profitability; 2) improved strategic positioning; 3) customer attraction. By conducting an exploratory single case study approach, we confirmed these categories by identifying the distinct reasons for eBay to introduce a competing business model. We then highlight the impacts on the focal firm as a result of the new business model. We find that the introduction of a competing business model can create novel sources of value for the company and its customers. In total, the study emphasises that when firms launch competing business models, intended and unintended consequences can be both positive and negative.

Keywords: business model innovation; BMI; service firms; competing business models; e-commerce; case study research.


Biographical notes: Christian Comberg is a Research Associate at the HHL Leipzig Graduate School of Management. He received his Bachelor in Business Administration from the University of Münster, Germany and Masters in Management from the Leipzig University, Germany.

Vivek K. Velamuri is the Schumpeter Junior Professor for Entrepreneurship and Technology Transfer at the HHL Leipzig Graduate School of Management, Germany. He holds a Doctoral degree from Friedrich-Alexander University of Erlangen-Nuremberg, Germany. His Junior Professorship is sponsored by the Leipziger Stiftung für Innovation und Technologietransfer.

This paper is a revised and expanded version of a paper entitled ‘Reaching globally, focusing locally: business model innovation at eBay’ presented at 14th Annual Conference of the European Academy of Management EURAM 2014 ‘Waves and Winds of Strategic Leadership for Sustainable Competitiveness’, Valencia, Spain, 4–7 June 2014.
1 Introduction

Today's business environment is tumultuous and continuously evolving. In order to survive, firms must find new ways to stay competitive, e.g., through innovation (Ghoshal et al., 1999; Tidd and Bessant, 2009). In this context, Markides (2006) differentiates between product or service innovation and business model innovation (BMI). The potential of BMI has become increasingly realised by researchers and practitioners alike due to its frequently underutilised source of potential value, its ability to withstand replication or imitation by competitors, and its ability to disrupt industries (Amit and Zott, 2012; Sosna et al., 2010; Chesbrough, 2007, 2010).

BMI is particularly appealing for firms in business environments facing increasing competition. E-commerce firms are prime examples of such firms operating in a tough business environment, which is characterised by

1. low barriers to entry due to simplified and inexpensive web programming platforms (Chang and Chen, 2008; Chang et al., 2003; Karakaya and Stahl, 2009; Oxley and Yeung, 2001)
2. difficult differentiation due to price transparency (Bakos, 1997)
3. the threat of substitution due to customer’s low switching costs (Porter, 2001; Srinivasan et al., 2002).

This intense competition is also forcing internet pioneers such as Amazon, Yahoo, and eBay, to innovate their business models giving rise to a new generation of BMI. As these technology behemoths once shifted the commerce paradigm by disrupting incumbent brick and mortar model, they now have to also reinvent themselves. In response to innovative competitors who threaten their core businesses; incumbents react by either incrementally adjusting or radically changing their business models (Casadesus-Masanell and Zhu, 2013). BMI in incumbent firms can often result in establishing a new business model next to the established one, which is also referred to as operating dual business models (Markides and Charitou, 2004).

So far, extant BMI research has focused on technologically driven innovations (Calia et al., 2007), brick and mortar companies moving to e-commerce (Amit and Zott, 2001; Porter, 2001), new entrants to e-commerce disrupting traditional industries (Chapman et al., 2003; Markides, 2006) and the creation of all together new product/markets (Johnson, 2010; Sawhney et al., 2006; Thompson and MacMillan, 2010). However, limited research has been done on incumbent e-commerce firms that have innovated their business models (in addition to their incumbent business model) resulting in operating dual business models.

To address this limitation, this study focuses on the global online marketplace eBay. Founded in 1995, eBay quickly became popular for its innovative auction style shopping format. In 1998, eBay was already a publicly traded company with over two million registered users and over $47 million in annual revenue (eBay Inc., 1999). Facing increased pressure around the world from free online classified ad providers (e.g., Craigslist): eBay introduced a new business model. In 2004, eBay launched its very own classifieds website – eBay Classifieds. The launch of eBay Classifieds resulted in eBay operating two separate online marketplaces under the same roof. This BMI could have been seen as direct competition due to its potential to cannibalise eBay’s existing customer base.
This leads us to our overall research question of the study: Why would one of the most popular e-commerce companies in the world introduce a new business model that appears to be a direct competitor to its established business model? The research question is further divided into three sub-questions:

RQ1 What is the difference between the two business models?
RQ2 What are the reasons for eBay to introduce the eBay Classifieds business model?
RQ3 What are the consequences of the introduction of eBay Classifieds on the established business model and the parent company?

To answer these questions, the study at hand builds on extant theory in the overlapping area of BMI and dual business models. It draws upon case study research, undertaken with two business units operating in the same company: eBay.com and eBay Classifieds. Through this, our study contributes in two ways to extant literature: we investigate the various reasons behind firms engaging in BMI, which eventually leads to operating dual business models; and we observe the consequences of introducing a competing business model on the established business model as well as on the parent company. Figure 1 provides an overview of the subject area the study is anchored in.

The remainder of the paper is organised as follows: Section 2 provides the theoretical underpinning for this study and examines literature dealing with business models and BMI, the potential benefits of BMI and dual business models. Section 3 contains the research method used and the case vignettes. Section 4, using a qualitative intra-firm analysis, identifies differences between the two business models, the reasons behind the introduction of eBay Classifieds and the consequences on the established business model and the parent company. Finally, Section 5 provides a discussion on how our study contributes to extant literature.
2 Theoretical underpinnings

This section provides the reader with the theoretical backgrounds of business models, BMI, the potential benefits of BMI and dual business models.

2.1 Introduction to business model and BMI

Although it is a fact that every company has a business model (Chesbrough, 2007); business model research is a rather young research field. There is still no commonly accepted definition of the term ‘business model’, which can be a potential source of confusion also for BMI because of the interdependencies between both concepts (Zott et al., 2011). Since business models form the basis of BMI, it is imperative to define the term ‘business models’.

Beginning with the second word of the term, a model is an aggregated, abstract, and simplified representation of a real world aspect which is supposed to describe the given phenomena as accurately as possible by indicating the most important components (Bieger and Reinhold, 2011). Keeping that in mind, business models with respect to content are not identical depictions of an enterprise, but models that explain the logic of the business by indicating the essential underlying mechanisms (Magretta, 2002). Osterwalder and Pigneur (2010, p.14) offer a more precise but still integrative definition of the term by defining business model as a “rationale of how an organisation creates, delivers, and captures value”. Another approach is to define business models normatively, implying that a business model has to consist of different predefined elements or dimensions. Normative business model definitions are particularly suitable to indicate the business model elements that are affected by BMI and hence to make BMI more feasible. Therefore, in line with Johnson et al. (2008), we state that a business model consists of the three interlocking elements, (A) value proposition, (B) profit formula, and (C) key resources and processes, that taken together, create, deliver, and capture value. Johnson’s (2010) normative definition of business models regarding elements provides the basis for his business model framework. Figure 2 is a graphical representation of his business model concept and is supposed to facilitate the application of the concept.

Figure 2  Business model framework

Source: Based on Johnson (2010)
The introduction of a competing business model

Value proposition represents all products and services that are of value to the customer by either solving an important customer problem or fulfilling an important customer need (Johnson et al., 2008; Osterwalder, 2004). The customer value however, is represented by the difference of the perceived customer value of an offering and the perceived costs in comparison to alternative offerings of competitors (Belz and Bieger, 2004). Therefore, according to Johnson et al. (2008), the power of a company’s value proposition is directly related to:

1. the importance of the job to the customer
2. the customer satisfaction level with existing alternatives
3. the superiority of the company’s solution to existing alternatives
4. the price compared to existing alternatives.

The profit formula defines how firms create value for themselves and their stakeholders (Johnson, 2010). It consists of the revenue model and the cost structure. The revenue model describes the way the company makes money and can be composed of one or several revenue streams of one or several value propositions (Osterwalder, 2004). The cost structure represents all costs that occur to create and deliver the value proposition to the customer and include direct costs as well as overhead costs and economies of scale (Johnson, 2010). The difference between revenues and the costs indicates the company’s profit.

Key resources and processes are essential to create and deliver the value proposition to the target customers by transforming them into products or services (Amit and Schoemaker, 1993; Johnson et al., 2008). Key resources include tangible resources like human capital, technology, materials, facilities, money, etc. and intangible resources like knowledge or reputation that are tradable and not company-specific (Amit and Schoemaker, 1993; Makadok, 2001). Key processes are operational and managerial processes like manufacturing, sales, service, budgeting, etc. that allow a company to deliver the value proposition in a repeatable and scalable way (Johnson et al., 2008; Johnson, 2010). In contrast to resources, processes are company-specific and not tradable (Amit and Schoemaker, 1993; Bieger and Reinhold, 2011).

Business models, in addition to commercialising technological innovations, can also be a source of innovation. In general, BMI takes place when a company changes the way it generates value for its customers and for itself. BMI is defined as a novel combination of (A) the value propositions (i.e., perceived usefulness for customers), (B) the profit formula (i.e., the manner incomes are generated and costs are structured), and (C) key resources and processes (i.e., resources and processes necessary to create and deliver products or services) that are difficult to imitate (Velamuri et al., 2013). Following this definition a relevant change in one or more elements of a business model can result in BMI, which can then lead to superior value creation and in turn produce superior returns to the firm (Casadesus-Masanell and Ricart, 2010; Morris et al., 2005). BMI is therefore considered as a new dimension of innovation. It not only covers the traditional modes of technological, organisational and process innovation, but also includes new exchange mechanisms and unique transaction methods (Zott et al., 2011).
2.2 Potential benefits of BMI

As managers begin to think beyond innovation in terms of products or processes, the importance of BMI in corporate practice is becoming increasingly recognised. Firms perceive BMI as a useful approach to navigating a volatile economic environment (Pohle and Chapman, 2006). A majority of over 4,000 managers surveyed by the Economist Intelligence Unit favoured BMI over product and service innovations as a source of future competitive advantage (Economist Intelligence Unit, 2005; Amit and Zott, 2012). For this reason, the various benefits firms can realise through BMI are identified from extant literature.

The arguments underpinning the increasing popularity of BMI are manifold: The development of knowledge-capital as a result of BMI can give firms a competitive advantage (Gambardella and McGahan, 2010). By innovating how products and/or services are delivered, a competitive advantage can also be attained (Johnson et al., 2008; Mitchell and Coles, 2003; Nunes and Breene, 2011). Because of the inimitable nature of BMI, firms engaging in BMI can benefit from a stronger position in the marketplace (Johnson et al., 2008; Nunes and Breene, 2011). BMI can be also instrumental in driving down traditional cost structures (Mitchell and Coles, 2004a; Pohle and Chapman, 2006). Sorescu et al. (2011) note several examples in the retail industry where firms achieved significant revenue growth due to BMI that emphasised operational efficiency. Firms are also able to diversify their revenue sources when they engage in BMI through product or service modifications (Lindgardt et al., 2009; Chesbrough and Rosenbloom, 2002; Chesbrough, 2010; Mitchell and Coles, 2004a). Firms engaging in BMI through product diversification, i.e., expand their product or service portfolio, are able to reach new customers (Bock et al., 2012; Hamel and Skarzynski, 2001; Mitchell and Coles, 2004b). Firms engaging in BMI can

1 create entirely new markets (Kim and Mauborgne, 2004)
2 reach under-served markets to attract new customer segments (Sako, 2012)
3 strengthen their position in the marketplace (Lindgardt et al., 2009; Sorescu et al., 2011).

BMI in value chain architecture reconfiguration can substantially improve a firm’s ability to reach and attract new customers (Anderson and Kupp, 2008; Gambardella and McGahan, 2010). Forward thinking firms that introduce new business models to take advantage of technological trends have seen significant gains in market share (Hamel and Skarzynski, 2001). Firms that utilise outsourcing as a form of BMI, become more nimble as they convert fixed cost to variable costs (Pohle and Chapman, 2006). A study by Bock et al. (2012) demonstrates a positive correlation between strategic flexibility and business model reconfiguration. BMI also allows firms to strengthen their strategic position by reducing risks, thereby giving the firm the opportunity to take more risks (Serrat, 2012). BMI can allow firms to focus through specialisation, resulting in quicker ability to seize growth opportunities (Pohle and Chapman, 2006).

All the above arguments can be broadly clustered into three categories:

1 increased profitability (i.e. how the firm can either reduce costs and/or increase revenues from existing customers)
The introduction of a competing business model

2. improved strategic positioning (i.e., how a firm differentiates itself from its competitors)

3. customer attraction (i.e., how firms can expand their customer base).

Because of the holistic nature of the business model (Amit and Zott, 2001; Osterwalder et al., 2005; Teece, 2010; Zott et al., 2011), each of these categories are interconnected and interdependent. See Table 1 for an overview of benefits of BMI clustered into three categories.

Table 1 Potential benefits of BMI clustered into three categories

<table>
<thead>
<tr>
<th>Categories</th>
<th>Benefits of BMI</th>
<th>Author(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitability</td>
<td>• Increase in revenues</td>
<td>Aspara et al. (2010), Chesbrough (2010) and Sorescu et al. (2011)</td>
</tr>
<tr>
<td></td>
<td>• Diversification of revenue sources</td>
<td>Chesbrough (2010), Lindgardt et al. (2009), Gambardella and McGahan (2010), Chesbrough and Rosenbloom (2002) and Mitchell and Coles (2004a)</td>
</tr>
<tr>
<td></td>
<td>• Cost reduction</td>
<td>Pohle and Chapman (2006) and Mitchell and Coles (2004a)</td>
</tr>
<tr>
<td>Strategic positioning</td>
<td>• Create competitive advantage/strengthen position</td>
<td>Gambardella and McGahan (2010), Johnson et al. (2008), Nunes and Breene (2011), Lindgardt et al. (2009) and Sorescu et al. (2011)</td>
</tr>
<tr>
<td></td>
<td>• Strategic flexibility</td>
<td>Bock et al. (2012) and Pohle and Chapman (2006)</td>
</tr>
<tr>
<td></td>
<td>• Focus/specialisation</td>
<td>Pohle and Chapman (2006)</td>
</tr>
<tr>
<td></td>
<td>• Risk reduction</td>
<td>Serrat (2012)</td>
</tr>
<tr>
<td></td>
<td>• Outperform competition</td>
<td>Hamel and Skarzynski (2001)</td>
</tr>
<tr>
<td>Customer attraction</td>
<td>• Enter/create new markets</td>
<td>Sako (2012) and Kim and Mauborgne (2004)</td>
</tr>
<tr>
<td></td>
<td>• Expand product or service portfolio</td>
<td>Hamel and Skarzynski (2001) and Mitchell and Coles (2004b)</td>
</tr>
</tbody>
</table>

2.3 Dual business models

Prior to the actual BMI, an established firm has to recognise the need to engage in BMI. Markides (1998) argues that established firms simply ignore the need for BMI as they are blinded by growing revenues and profits. He therefore suggests focusing on the strategic health of a company, as the short term financial health might not be a good measurement for BMI decisions. As indicated in Figure 1, in response to innovative competitors that threaten their core business, incumbents will react by either incrementally adjust or radically innovate their business models, which might lead to operating dual business models (Casadesus-Masanell and Zhu, 2013).

However, there are significant trade-offs, that make it difficult for established firms to respond to disruptive innovations effectively. Based on a survey among 98 firms, Charitou and Markides (2003) identified obstacles why managers hesitate to operate dual business models. These are
1 undermining the value of the existing distribution network
2 shifting customers from high-value activities to low-margin ones
3 destroying the overall culture of the organisation
4 cannibalising existing customer base
5 losing focus through adding activities that may confuse employees and customers
6 attract new competitors by legitimising the new business
7 compromising the quality of service offered to customers.

Firms which overcome these challenges and operate two (or more) business models successfully are characterised by not only high synergies between the units, but also a high degree of autonomy within the different units to make financial and operational decisions (Markides and Charitou, 2004). In successful examples, the parent company navigates and controls the cooperation between the units and makes sure that synergies are exploited (Markides and Charitou, 2004). Finally, despite high potential rewards, most companies fail in successfully operating dual business models (Koen et al., 2011; Markides and Oyon, 2010).

3 Research design and case vignettes

3.1 Research design

Since research on the specific reasons why firms engage in BMI and the potential impact of BMI on established business models is limited, an explorative qualitative research approach was selected. In comparison to quantitative research approaches, the qualitative approach allows to gain deeper insights into the phenomenon under study by uncovering loosely connected insights and therefore illuminating and extending causal relationships. Thus, qualitative research is particularly suitable for theory generation in contexts when little is known about the underlying phenomenon (Eisenhardt, 1989; Miles and Huberman, 1994). Theory building from case study research, however, is the most preferred research method when it comes to test but also generate novel theory in new topic fields (Eisenhardt, 1989). The study at hand follows the structure of a single case design (Yin, 2009). A single case design was chosen because eBay represents a very unique case of an e-commerce company that successfully operates two competing business models whilst addressing a very similar customer group (Yin, 2009). According to Flyvbjerg (2011, p.306) it is more important from an understanding-oriented perspective to clarify the deeper causes of a phenomenon and its consequences compared to “describe the symptoms of the problem and how frequently they occur”. By choosing eBay as our single case, we therefore followed an information-oriented selection, i.e. maximising the utility of information from single cases as the cases are selected based on expectations about their information content (Flyvbjerg, 2011).
3.2 Data collection

Case studies are frequently used when contemporary events are described, often with the help of observations of people who have been directly involved in the respective event (Yin, 2009). Therefore, data was collected mainly through semi-structured in-depth interviews and was supported by publicly available company data, web presence, annual reports, professional journals and newspaper articles. Different managers from both eBay.com and eBay Classifieds have been interviewed. For our interviewee selection, we followed a criteria-based approach. All interviewees had to be actively involved in the introduction period of eBay Classifieds and hold a management position to make sure that they provide first hand and reliable information. To identify eBay managers with this specific but also rare characteristic, we used a snowball sampling method. According to snowball sampling, we identified and interviewed one manager who had this rare characteristics being sought and asked him to identify others he may know who have that same characteristics (Von Hippel et al., 2009; Welch, 1974). In addition, we also interviewed eBay users to learn more about the perceived value propositions and customer roles regarding the two platforms. For the customer interviews, we selected active eBay users that used both platforms on a regular basis. Not surprisingly, the customer interviewee identification was less difficult and there was a higher willingness to take part compared to the eBay manager interviews. In total 14 different interview partners were identified. Table 2 provides a list of interviewees.

<table>
<thead>
<tr>
<th>Employee – number of years working at eBay</th>
<th>Generic position</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 3 years</td>
<td>Manager marketplaces</td>
</tr>
<tr>
<td>&gt; 4 years</td>
<td>Senior business manager</td>
</tr>
<tr>
<td>&gt; 5 years</td>
<td>Strategic initiatives manager</td>
</tr>
<tr>
<td>&gt; 7 years</td>
<td>Senior sales partner</td>
</tr>
<tr>
<td>&gt; 7 years</td>
<td>IT manager</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Customer – number of years using eBay</th>
<th>Estimated number of transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 2 years</td>
<td>eBay.com: 25; eBay Classifieds: 5</td>
</tr>
<tr>
<td>&gt; 2 years</td>
<td>eBay.com: 11; eBay Classifieds: 4</td>
</tr>
<tr>
<td>&gt; 3 years</td>
<td>eBay.com: 22; eBay Classifieds: 5</td>
</tr>
<tr>
<td>&gt; 3 years</td>
<td>eBay.com: 63; eBay Classifieds: 4</td>
</tr>
<tr>
<td>&gt; 4 years</td>
<td>eBay.com: 56; eBay Classifieds: 6</td>
</tr>
<tr>
<td>&gt; 5 years</td>
<td>eBay.com: 35; eBay Classifieds: 10</td>
</tr>
<tr>
<td>&gt; 5 years</td>
<td>eBay.com: 37; eBay Classifieds: 6</td>
</tr>
<tr>
<td>&gt; 8 years</td>
<td>eBay.com: 97; eBay Classifieds: 12</td>
</tr>
<tr>
<td>&gt; 12 years</td>
<td>eBay.com: 530; eBay Classifieds: 65</td>
</tr>
</tbody>
</table>

In order to gain the essential level of richness and data depth, most interview partners were interviewed more than once. Interviews lasted more than one hour on average. All interviews were taped and transcribed before data analysis was conducted. At the beginning of each interview the concept of business model and BMI was clarified to ensure a common understanding with the interviewee. Subsequently open-ended...
questions were asked to collect data and gain an understanding of the desired topic. These open-ended questions were derived from a workshop consisting of three experienced researchers in the field of BMI. The interview guideline focused on questions that enhanced understanding of why and how eBay engaged in BMI and the implications on its established business model: How would you define eBay.com’s and eBay Classifieds’ respective business model? What are the underlying reasons for eBay to introduce eBay Classifieds? What are the short-term/long-term benefits of introducing eBay Classifieds for eBay? What impact has eBay Classifieds had on eBay.com, specifically its business model? What barriers existed while introducing the business model of eBay Classifieds? How did eBay overcome these barriers? How do customers respond to the new offering of eBay Classifieds? How has eBay.com’s profitability been affected by eBay Classifieds? What was/is the reason for making classifieds free to use? Has eBay.com been able to reach any new customer segments by introducing eBay Classifieds? Or is eBay Classifieds to some extent cannibalising traditional customer segments from eBay.com? The interviews concluded by giving the interviewees the opportunity to reveal whatever they thought would further enrich our case study and help us reach our desired research goal. Except for general questions, our interview guideline was structured according to the BMI categories value proposition, key resources and processes, and profit formula.

3.3 Data analysis

Data analysis was conducted according to acknowledged and accepted standards for qualitative research (Miles and Huberman, 1994; Yin, 2009). After transcribing the interviews, qualitative codes were developed as a first step to identify meaningful themes and comments that could be further analysed with regard to the research questions. Qualitative codes consist of a short phrase or just a single word, which captures the essence of this portion of the particular interview data (Saldaña, 2009). For data analysis, we used a two-step thematic content analysis of the data gathered. In the first step, we conducted an exploratory analysis to capture salient themes, which emerged from the empirical case evidence for

1. the composition of the two business models
2. the specific reasons behind eBay’s decision to operate multiple business models.

The detailed analysis and comparison of the two business models helped us a lot to understand eBay’s strategic decision to run dual business models. The open coding in the first step of the data analysis has led to the empirically grounded identification of different reasons for eBay to operate two competing business models within the single case. In the second step of the data analysis, we sorted the different business model related processes and practices to the business model components of value proposition, key resources and processes, and profit formula, which were deduced a priori from extant theory (Section 2.1). In the same way, we assigned the different reasons, which stem from the open coding process, to the three categories which were previously derived from extant theory (Section 2.2). Collection of data and analysis was continued until saturation, i.e. redundancy was achieved. Finally, findings were arrived at an interactive manner through constant discussions by the authors until consensus reached. To facilitate
The introduction of a competing business model

and structure the coding and analysing process, the software ATLAS.ti was used. Figure 3 provides an overview of the data collection and data analysis process.

**Figure 3** Data collection and data analysis process

<table>
<thead>
<tr>
<th>Single case study</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Data collection</strong></td>
</tr>
<tr>
<td>In-depth interviews</td>
</tr>
<tr>
<td>Managers (criteria-based approach/snowball sampling)</td>
</tr>
<tr>
<td>Customers (criteria-based approach)</td>
</tr>
<tr>
<td>eBay classifieds eBay.com</td>
</tr>
<tr>
<td>eBay classifieds eBay.com</td>
</tr>
<tr>
<td>Publicly available data</td>
</tr>
<tr>
<td>eBay classifieds eBay.com</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Data analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Two-step thematic content analysis</td>
</tr>
<tr>
<td>1) Exploratory analysis</td>
</tr>
<tr>
<td>RQ 1: Composition of the two BMs</td>
</tr>
<tr>
<td>RQ 2: Reasons why eBay decided to operate multiple BMs</td>
</tr>
<tr>
<td>2) Categorization</td>
</tr>
<tr>
<td>RQ 3: Assign reasons, from open coding process, to the three categories which were deduced a priori from extant theory</td>
</tr>
</tbody>
</table>

3.4 Case vignette

Headquartered in San Jose, California, eBay Inc. is an American multinational e-commerce and internet technology corporation. Founded and launched in 1995 as ‘Auction Web’ by French-born software developer Pierre Omidyar, two years later eBay already listed 2 million items. eBay continued to grow rapidly internally and through acquisitions and is nowadays one of the leading e-commerce companies with more than 14 billion dollars in revenue, more than 31,000 employees and operations in over thirty countries. By offering online platforms, payment tools and services that help to engage in online and mobile commerce, eBay targets individuals and small, medium and large merchants.

eBay divides its offerings into three segments: marketplaces, payments, and GSI. The Marketplace segment consists of the well-known e-commerce platform eBay.com, vertical shopping platforms such as StubHub and the classifieds websites such as ebayclassifieds.com. By the end of 2012, eBay confirmed 112 million active users on their marketplace platforms creating more than 350 million listings. The payment segment comprises PayPal for secure, easy and quick online and mobile payments, Bill Me Later for offering online credit at the point of sale, Zong for digital goods transactions charged at the phone bill and BillSAFE to pay for purchases upon receipt after the item is delivered at home (eBay Inc., 2013). Finally, the GSI segment provides interactive marketing and e-commerce services to merchant clients.
eBay Classifieds, formerly known as Kijiji, was initially launched globally in 2004 and then later in the USA in 2007. Kijiji has its origins as an internal project by a small team of entrepreneurial employees within eBay. eBay Classifieds is a free-to-use online classifieds platform with a strong local focus that is designed to list and search for items conveniently. As of 2007, Kijiji was the market leader for online classifieds in several countries, including Canada, Taiwan, Italy and Germany. After acquiring several other leading online classified websites, eBay then began re-branding many of its international Kijiji domains. In 2008, Kijiji India was changed to Quickr.com, in 2009, Kijiji Germany was rebranded to eBay Kleinanzeigen and in March, 2010, eBay USA replaced Kijiji US with the name eBay Classifieds. In 2012 eBay’s classifieds websites had listings in over 1,000 cities globally attracting 24 million unique visitors per month which lead to more than 350 million page views per month. Interestingly eBay holds a non-controlling equity investment in Craigslist, Inc., its largest US competitor and one of the world’s leading classifieds websites.

4 Findings

In the following findings for each of the three research questions are presented in detail below.

4.1 What is the difference between the two business models?

We answer this question using the previously defined three business model elements, i.e. (A) value proposition, (B) profit formula, and (C) key resources and processes. The following description of eBay.com’s and eBay Classifieds’ business models in regards to their respective elements sets the stage to highlight the fundamental differences in the two business models.

4.1.1 Value proposition: eBay.com vs eBay Classifieds

Analysis revealed that eBay.com and eBay Classifieds share some common value propositions that are crucial for both business models. These value propositions are

1. a large member base that exceeds a critical mass to ensure sellers will list their items and buyers know that they can use eBay when searching for new or used products
2. no place and time constraints for customers when conducting transactions
3. transaction efficiency by bringing together a huge number of buyers and sellers in a more effective manner than traditional intermediaries allowing them to conduct transactions with reduced transaction costs.

Besides these common value propositions, eBay.com provides some very unique value propositions by offering a trade exchange platform for private and commercial customers, i.e. sellers and buyers, that are characterised by a global scope of action, trust, and entertainment.

eBay.com offers a global scope of action enabling sellers to target global markets with cross border-trades and buyers to purchase items on eBay.com websites all over the world. This results in more than 112 million active users who either bid on, listed, or
The introduction of a competing business model

bought an item on eBay.com’s platforms in more than 30 countries. This is also embodied in eBay.com’s marketing slogan: “Whatever it is, you can get it on eBay”. Trust is a very central value proposition for eBay.com because it brings together people for transactions who otherwise have no connection to each other. In order to make the transaction process for buyers and sellers as safe and convenient as possible, eBay.com offers its sellers payment, technology, fulfilment, freight and customer care support, e.g. through feedback forum, ratings, the PayPal payment option, etc. In the past, especially the auction format and the thrill associated with it were considered as a form of entertainment for buyers and sellers. Among its customers, eBay.com is also known for the chance to close good deals, particularly for used products.

eBay Classifieds delivers value to its customers by offering a platform for the private exchange of goods and services for private consumers, i.e. sellers and buyers, that is free of charge, local, and convenient. eBay Classifieds offers its customers a fully functional platform for buying and selling products and services that is completely free of charge in its basic version. Another value proposition of eBay Classifieds is its local reference. This localisation allows buyers to search particularly for products in their city or neighbourhood and sellers do not have to care about packaging, distribution or payment methods, since the buyer will pick up the item and pay in cash. As a result, eBay Classifieds is especially appealing for certain product categories, such as bulky pieces of furniture where shipping can become prohibitive or whenever haptic considerations, i.e. touching, feeling or seeing a product in person, are important for the buyer. Furthermore, the usage of eBay Classifieds is very convenient. Users do not have to follow a time-consuming registration procedure and the process of listing an item for sale does not take longer than 2 minutes.

4.1.2 Profit formula: eBay.com vs eBay Classifieds

Analysis reveals that there are both similarities and differences regarding the revenue streams and cost structures between the two platforms. As a result of its primarily transaction-based business model, eBay.com generates two types of revenue streams: transaction revenues, and marketing services and other revenues.

Transaction revenues include insertion fees and final value fees which are payable on completed transactions, optional fees for advanced listing upgrades, fees paid by merchants for payment processing services, and e-commerce service fees (eBay Inc., 2013). Transaction fees depend on the number of listings per month, the final value of the sold item, the pricing format and the use of advanced listing upgrades. In 2012, the total net transaction revenues accounted to more than $865 million of eBay’s $1.407 billion in total revenue. Marketing services revenues derive from revenue sharing arrangements, the sale of advertisements, marketing service fees, classifieds fees and lead referral fees. Other revenues are generated from fee and interest earnings of the Bill Me Later portfolio, interest earned on certain PayPal customer account balances and fees from contractual arrangements with third parties that provide services to eBay users (eBay Inc., 2013).

Revenue streams for eBay Classifieds include earnings from Google AdWords, display advertising, and product features.

Revenues from Google AdWords are generated from advertisers paying for AdWords to get their advertisements placed at eBay Classifieds. These sponsored links are placed within each product category. Display advertising revenues derive from banners or logos
of professional sellers or partners that are displayed at eBay Classifieds website. Product feature revenues are generated whenever a seller chooses to promote their listed item, so that it appears at the top of the search results or prominently in a gallery on the landing page.

eBay.com’s cost structure consists of two cost blocks: cost of net revenues, and operating expenses.

Cost of net revenues consists primarily of costs related to site operations, payment processing, customer support, interest expense on borrowings incurred to finance Bill Me Later’s portfolio of loan receivables and fulfillment (eBay Inc., 2013). In 2012 customer support and site operations costs increased the most, alone being almost responsible for an increase in cost of net revenues by 5% to $1.273 billion compared to 2011. Operating expenses include sales and marketing expenses (consisting primarily of online and offline advertising costs and marketing programs), product development expenses (consisting primarily of contractor costs, employee compensation, facilities costs and depreciation on equipment), general and administrative (consisting primarily of employee compensation, facilities costs, contractor costs, depreciation of equipment, legal expenses, restructuring, employer payroll taxes on employee stock-based compensation, insurance premiums and professional fees), provision for transaction and loan losses, amortisation of acquired intangible assets, interest and other and provision for income taxes (eBay Inc., 2013).

Sales and marketing and product development costs account to 64.4% of the total operating expenses of $6.968 billion.

Regarding the cost structure of eBay Classifieds there is almost no accurate data available, since in eBay’s annual report the cost metrics of all of eBay’s classifieds websites are not shown separately but condensed in the overall cost metrics for the entire Marketplace segment. The interviews however provided valuable insights in the general cost structure of eBay Classifieds. All interviewees emphasised the fact that eBay Classifieds has a very lean cost structure that strives for efficiency at the highest level possible. As one manager stated:

“All the classifieds websites that belong to eBay are lean, I mean very lean. eBay Kleinanzeigen or Kijiji back then, they were ten people that have managed traffic of several million visits per month. And also you have to be well set and very efficient regarding staff, but also regarding marketing and SEO. Otherwise the free classifieds model does not work.”

Another manager summarised it by saying:

“Well, eBay.com has in general a significant higher level of costs than their classifieds sites.”

4.1.3 Key resources and processes: eBay.com vs eBay Classifieds

The key activities within eBay.com’s value chain architecture are advertising, platform development, registration process, transaction and payment process, communication process, and customer support.

Advertising activities aim at further increasing publicity/awareness of the brand name ‘eBay.com’ to further increase traffic on the platform. Nevertheless, eBay.com is not able to solely depend on its brand. Therefore, a substantial amount of activities are dedicated to platform development. This group primarily focuses on the technology behind listing
and search functions and content management aiming at an engaging, well-structured website that has both short click-paths and high usability. Regarding the registration process, with eBay.com, a user must first sign up for a user account. This includes entering your personal data and choosing a unique eBay username and password. After this step you then must add additional details which can then be later used for payment and shipping information. This step also includes choosing a secret question and answer for security purposes. With eBay USA, the registration process is immediate, but depending on the country (i.e. Germany), the approval process can take longer because of consumer protection legal requirements, including Schufa personal information and address verification. To fully benefit from all eBay.com security and trust mechanisms and for a convenient shopping experience, a PayPal account is required which adds two additional steps to the whole registration process and makes it more complex. At eBay.com the entire transaction and payment process is handled completely on-site and controlled by eBay in a transparent way for all transaction partners. In the event of any problem, buyers and sellers can contact eBay.com and the latter will help solving the problem. The communication process between members is controlled by eBay.com and only possible by using eBay.com’s platform message system. On the one hand, eBay.com can offer their customers a convenient and secure way to communicate. On the other hand, eBay makes sure that transactions actually take place on eBay’s platform and do not migrate to other channels where eBay.com cannot benefit. A high level of customer support is vital for eBay.com to assure trust in conducting transactions with strangers on eBay.com. In this context, quickly answering customer requests and taking care of bad buyer or seller experiences through mediation is essential, especially for top sellers or buyers.

Within eBay Classifieds’ value chain architecture; key activities are search engine optimisation (SEO), selling display advertising space, simple listing process, and customer support.

SEO activities concentrate firstly on improving rankings of eBay Classifieds listings and secondly on eBay Classifieds appearing in general in search engine queries. By using sophisticated and elaborated long-tail keywords, eBay Classifieds can further increase the success of listings by taking advantage of its huge inventory of listed items. The acquisition of display advertising customers and selling display advertising space is a key activity for eBay Classifieds since it reflects one of its only two sources of revenue. eBay Classifieds stands out due to its simple listing process. With eBay Classifieds, users can create an ad and have it published in two steps by choosing a category, and adding corresponding content.

There is no registration process required, but users are required to verify their identity (which can be done in one of two ways). You can simply connect your Yahoo, Google or Facebook account and when you are done creating your ad it will be published. Without using the ‘single sign-on’ method just described, the user’s identity can be verified through e-mail confirmation after the ad is created. Just as for eBay.com, customer support is also essential for eBay Classifieds, but on a very basic level. Key to success is handling customer requests, e-mails and phone calls as efficiently as possible with as few personnel as possible. Table 3 summarises the primary differences between the business models of eBay.com and eBay Classifieds.
Table 3 Overview of the primary business model differences

<table>
<thead>
<tr>
<th>Value proposition</th>
<th>eBay.com</th>
<th>eBay Classifieds</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Global scope of action</td>
<td>• Free of charge</td>
</tr>
<tr>
<td></td>
<td>• Trust</td>
<td>• Local</td>
</tr>
<tr>
<td></td>
<td>• Entertainment</td>
<td>• Convenient</td>
</tr>
<tr>
<td>Profit formula</td>
<td>• Transaction revenues</td>
<td>• Google AdWords</td>
</tr>
<tr>
<td></td>
<td>• Marketing services and other revenues</td>
<td>• Display advertising</td>
</tr>
<tr>
<td>Key resources and processes</td>
<td>• Advertising</td>
<td>• Product features</td>
</tr>
<tr>
<td></td>
<td>• Platform development</td>
<td>• Search engine optimisation</td>
</tr>
<tr>
<td></td>
<td>• Registration process</td>
<td>• Selling display advertising space</td>
</tr>
<tr>
<td></td>
<td>• Transaction and payment process</td>
<td>• Simple listing process</td>
</tr>
<tr>
<td></td>
<td>• Communication process</td>
<td>• Customer support</td>
</tr>
<tr>
<td></td>
<td>• Customer support</td>
<td></td>
</tr>
</tbody>
</table>

4.2 What are the reasons for eBay to introduce the eBay Classifieds business model?

The results of this research question are structured according to the three categories of BMI benefits presented previously in Section 2, i.e. profitability, strategic position, and customer attraction.

4.2.1 Profitability

Being a publicly held corporation, it is a given that eBay must maximise its shareholder value. As Doyle (2001) points out, growth is a powerful way to increase shareholder value. It is no surprise then, that eBay is a growth-driven company. This was confirmed during an interview:

“…eBay is a company that is revenue and growth driven.”

Taking into account eBay’s growth strategy, alongside the financial crisis that was taking its toll on the retail markets, eBay’s desire to bring in new sources of revenue played a critical role in launching eBay Classifieds. As one manager put it:

“…eBay had two simple reasons to introduce eBay Classifieds: to gain new sources for revenues and to diversify existing revenue sources…”

This manager elaborated the point stating that revenues from eBay Classifieds should help offset plateaued or decreasing revenues from eBay’s core business segment. In regards to diversification, eBay wanted to capitalise on the growing online advertising market. Until the introduction of eBay Classifieds, eBay was more or less reliant on one revenue stream – transaction fees from auction listings. By offering a free to use classified ads marketplace generating revenues solely from advertising, eBay successfully added a significant source of revenue.
4.2.2 Strategic position

Looking at the introduction of eBay Classifieds through a strategic lens, it’s clear to see that this was an obvious strategic play for eBay. In a 2007 interview, then president of eBay North America Bill Cobb said, “We are in one business, we are in the e-commerce business, and there are other forms of e-commerce [besides selling goods], especially selling services” [Holahan, (2007), n.p.]. Given this non-committal to just being an auction site, it’s evident that launching eBay Classifieds was designed to strengthen eBay’s overall position as an e-commerce company. While on the surface it seems that starting eBay Classifieds was proactive move, this quote from a European eBay manager shows the contrary:

“It was purely a reactive measure to protect eBay Inc. after some negative developments in the French and American markets.”

What is being referred to here is the loss of market share due to increased competition from other online marketplaces, namely free classified ad providers such as Craigslist (USA) and Leboncoin (France). As an eBay manager explained:

“But the main reason was actually the competition. Because eBay was not the first on the market that offered such a thing, it was a reaction to what was happening in various markets – first with Craigslist, then Leboncoin, and then with Italy. One simply saw that there are countries in which non-transactional, classified based platforms are simpler. Customers like this because they are less complicated. At some point eBay then also found that the market share of eBay in these countries was more or less being taken over [by such services]. Thus, it was more of a reaction born of necessity as a strategic move.”

Not only were these marketplaces free to use for end users, but they also offered much simpler listing and registration processes. This development combined with the growing popularity of other options for online sellers, such as Amazon, was impeding eBay’s core business. Because of Craigslist’s dominant position in the USA at that time, eBay launched their first classifieds sites specifically targeting foreign markets like Canada, Italy, Taiwan and Germany. In Germany, other competitors such as Quoka were still relatively small, giving eBay a better opportunity to gain market share quickly.

“…to avoid situations like in the USA and France. They wanted to keep competitors like Quoka small or at least avoid that they successfully gain market share in the online segment.”

Even though Quoka was already online at that time, they were stronger in print ads. Nevertheless eBay was still concerned that they could lose customers to Quoka and other German marketplaces like as OpusForum. But the problem was more widespread than just the USA, France and Germany. With a range of new classifieds players around the world such as Loquo (Loquo.com) in Spain and Gumtree (http://www.gumtree.com) in the UK, the pressure was mounting on eBay.

eBay recognised that if they did not start a classifieds service, someone else would have eventually, and that those users would be coming from the eBay marketplaces. This was specifically the case in Germany, as this eBay manager explains:

“...if eBay doesn’t make it efficient, someone else will. And then where should the users come from for these platforms? They mostly would come from the eBay marketplace, and then you have lost revenue and have no additional revenue streams. This is a lesson from France, and the U.S. partially where Craigslist is still growing strong and fast.”
To further emphasise the fact that the launch of eBay Classifieds was a strategic move, the decision was made even though eBay management was fully aware that classifieds marketplaces are less profitable than transactional platforms, like eBay.com. One eBay manager elaborated on the two contrasting platforms:

“With a large scale of users, classifieds sites can be profitable, but not as profitable as transactional platforms because of significantly higher margins.”

Within two years of launching, Kijiji was already operating in 20 countries and the leading classified ad site in Canada, Italy, Germany, and Taiwan. This strategic move to strengthen eBay’s overall position as an e-commerce company, contributed significantly to making up for lost ground in its core business. Indicating that this move paid off, eBay’s 2007 Q3 revenue from its classifieds category increased more than 100% from the same period in the previous year.

4.2.3 Customer attraction

The necessity to attract and retain customers also factored into the decision to setup eBay Classifieds. Both existing buyers and sellers on eBay.com were becoming annoyed with many facets of the core auction business, such as:

1. the complicated listing process
2. lack of control over prices and fees for services
3. sub-par customer service
4. a small (but acceptable) degree of seller fraud
5. slow delivery of goods.

“Private customers were annoyed by the inconvenience of the registration and listing procedures at eBay. They preferred to have convenient processes with basic functions for free and control over the price. eBay introduced eBay Classifieds to migrate those customers to another business model, keeping them within the corporation.”

Another factor regarding customers was the evolution of eBay.com from a mostly C2C marketplace to a B2C marketplaces. Many smaller sellers could not compete with the bigger and more sophisticated sellers on eBay.com, and were looking for other platforms to reach customers. eBay Classifieds was the solution:

“eBay Classifieds is a typical C2C business. This means that it must be easy, be simple, it must be totally easy to adjust anything, and anyone can do it.”

As more companies began selling on eBay.com and using services like customised listing templates, individual and ‘mom and pop’ sellers were more apt to migrate to a simpler and more straightforward solution like eBay Classifieds. An eBay manager explained the difficulty these sellers faced:

“...they might have said, it’s too complicated. So, I don’t know HTML, my listings look stupid, and the whole thing takes me too long.”

The decision to launch eBay Classifieds also gave them the ability to meet the culturally influenced demands of some customers. While eBay.com’s auction format was wildly
The introduction of a competing business model

successful in the USA and other countries, particularly in Germany where the anonymity reflected the German culture quite well.

“...you buy, you pay, then it's sent. I'll give you the rating, and we have personally nothing to do with each other.”

But in some countries, many customers still preferred to have the ability to negotiate, as well as inspect the item before purchasing. But at eBay.com this was not a possibility, as one manager explained:

“...there are simply countries where the classifieds model is charming for users, because it is easier, and because you still have the negotiating. This possibility doesn’t exist at eBay...in other cultures it is very important to meet to negotiate a bit and I think therefore the classifieds platforms have better opportunities there.”

By diversifying its portfolio and introducing eBay Classifieds, eBay was able to offer a new online shopping experience for its existing customers as well as new customers. Whereas before one could only buy products via an entirely online transaction, eBay now had a marketplace that also offered services, and the opportunity for buyers and sellers to complete the transaction in person. The launch of eBay Classifieds was without a doubt a move to tap into underserved markets and expand its customer base.

4.3 What are the consequences of the introduction of eBay classifieds on the established business model and the parent company?

Launching a competing business model is sure to have consequences on the focal firm, and the case of eBay is without exception. Not surprisingly, there were both positive and negative consequences of the introduction of eBay Classifieds for eBay.com.

One of the most positive effects eBay realised was in the form of key learnings, as eBay.com gained valuable insights into marketing and advertising. Due to lower revenues and smaller operating margins, eBay Classifieds was forced to work with a smaller marketing budget. As a result, to ensure they were being found in the search engines properly, eBay Classifieds needed to employ a different SEO strategy than eBay.com.

“In order to be able to reach a critical mass with a small budget, SEO is a key to success at eBay Classifieds. This is exactly where eBay can learn a lot from eBay Classifieds.”

Because the listings on eBay Classifieds were so vast and had longer listing periods (up to 90 days), specific ‘long-tail’ SEO strategies were implemented so that the listings were appearing higher in the search engine results. The power of this particular marketing tactic was a revelation to eBay.com.

As eBay Classifieds learned how to deal with the aforementioned financial restrictions, it was necessary to improve efficiency if it wanted to become profitable. Considering the German version of eBay Classifieds, eBay Kleinanzeigen, generates more than 10 million impressions per month, has an Alexa traffic rank of 83, and is profitable, a focus on efficiency has been paramount – something eBay.com has taken note of.

Although the new-found knowledge eBay.com gained was certainly a positive outcome from launching eBay Classifieds, there were some drawbacks as well. Launching a dual business model in the same market is inherent with risk, namely the
cannibalisation of your existing customer base. This phenomenon was unfortunately realised by eBay.com. But an eBay manager further clarified, that

“...it was a necessary cannibalization. If eBay would not have done that, people would have migrated to competitors.”

As private sellers and buyers migrated to eBay Classifieds to take advantage of non-existent listing fees, eBay.com saw its seller base decline. With fewer sellers participating on eBay.com, transaction fees decreased resulting in a drop in profitability. It should be noted that the decreasing profitability was not solely attributed to fewer listings, but also to the decrease of basic listing fees by eBay.com as a result of pressure from sellers.

Another negative side effect of introducing the new and to some extent very different business model of eBay Classifieds under the same eBay umbrella brand as eBay.com is brand dilution. In contrast to eBay.com, at eBay Classifieds the entire transaction and payment process is handled completely offsite and not under the control of eBay. In the event of any problem, buyers and sellers cannot expect eBay help in solving the problem as they were used to when using eBay.com in the past. Although eBay Classifieds states in their ‘Help’ section that eBay Classifieds does not offer any buyer protection programs or secure payment systems for eBay Classifieds items, there is the inherent risk for eBay.com that customers with a bad transaction experience will not distinguish between eBay.com and eBay Classifieds and stop using any eBay platform. eBay.com put a lot of effort into gaining the trust of users by introducing buyer protection programs or secure payment systems. By the brand sharing and the strong integration through links leading from eBay.com to eBay Classifieds and vice versa, these trust gaining efforts are in serious danger.

At the same time, almost all interviews confirmed that the strong integration between eBay Classifieds and eBay.com also holds the potential to have positive effects. eBay Classifieds turned out to be a door opener/gate keeper for eBay.com in a way that it attracts new customer segments which would eventually migrate to eBay.com after they first had good experiences with eBay Classifieds. As eBay Classifieds users became more familiar with the eBay brand, barriers to entry to eBay.com were lowered. Against the background of the strong growth of the classifieds sector in general and eBay Classifieds sector in particular, this way of increasing the customer base becomes even more relevant.

Another positive and critical impact on eBay.com as a result of eBay Classifieds is in the area of globalisation. The road eBay Classifieds paved for eBay.com to access new international markets cannot be understated.

“eBay Classifieds was also very useful as prerequisite to get eBay into other markets. eBay Classifieds had significant consequences for the success of eBay in international markets, such as in Russia.”

The first step eBay.com took when it entered the Russian market was to devise a ‘buy in hub’, which allowed sellers from existing markets like Germany and the UK to have their listings translated and offered on a new eBay platform in Russia. This was a one-time offer, and there were no Russian sellers on the platform during this phase. All listings were being populated from other markets.

Approximately six months later, eBay Classifieds was introduced in Russia to reach the local market, and ultimately draw in sellers for eBay (EWDN, 2011). Slowly, eBay
The introduction of a competing business model

Classifieds began to gain popularity with the Russian market eventually hitting a critical mass where sellers started migrating to the core eBay.com (eBay.ru) platform to take advantage of a larger and more international user base.

Sellers in Russia were not originally introduced to eBay.com straightaway for convenience, and trust reasons.

By allowing users to become familiar with the eBay brand through the classifieds platform first, the chances they would become deterred by the lengthy eBay.com listing process was mitigated to an extent. On eBay.com, trust is critical to a successful transaction, but this is not the case with eBay Classifieds. For this reason, cautious users became accustomed to using an eBay brand, allowing trust and familiarity to develop, in turn breaking down barriers toward using eBay.com in addition to eBay Classifieds.

Although some of the impacts eBay.com felt were intended, not all of them were. One particular example is the return of some private sellers to eBay.com after they left because of the increasing amount of commercial suppliers. One eBay manager said:

“I would classify that as a side effect. That was never the [primary] reason.”

In a nutshell, the impact of introducing eBay Classifieds in regards to the core eBay.com platform was significant. While not everything was positive, the key learnings, the long-term impact from an internationalisation perspective, and the return of previous users should more than negate the small degree of cannibalisation effects. However, one must keep in mind that the introduction of eBay classifieds was a reactive move by the company. As different players (e.g., Leboncoin in France and Craigslist in the USA) aggressively ate into eBay’s traditional business; eBay was forced to build a strong counterpart to these fast growing free online classified ad providers.

5 Discussion

Our study of the introduction of a competing business model within an e-commerce firm contributes to the evolving literature of BMI in established firms. We explore and describe in a single case research how eBay responded to the threat of disruptive innovation by competitors by introducing a dual business model through BMI. As there are many obstacles against BMI in general and running dual business models in particular the case research uncovers the manifold reasons why firms engage in BMI and the consequences for the established business model and the parent.

Although only one company was the subject of analysis, there are still some generalisable findings. First, the eBay case shows that established companies should very carefully observe their market environment as well as competitors and proactively adapt their business models to meet changing customer needs. Second, although the specific reasons for BMI might be manifold and differ from case to case, they all revolve around the three identified categories increased profitability, improved strategic positioning, and customer attraction.

Third, we found that the introduction of a competing business model also has consequences on the established business model. As demonstrated in this study, the consequences can be both positive (e.g. key learnings, door opener, and access to new markets) and negative (cannibalisation and brand dilution).

In doing so our research contributes to previous research on BMI, which leads to operating dual business models as follows: First, our findings support Markides (1998),
who argues that the need for BMI should be judged against the backdrop of the strategic health of a company, as the short term financial health might not be a good measurement for BMI decisions. This holds also true for eBay as both revenues and profits of the marketplace section were growing at the time the management decided to build up eBay classifieds. In addition, our findings are in line with Casadesus-Masanell and Zhu (2013) who found that incumbents (in our case eBay) will react to threats to their core business by competitors. Second, our analysis supports Markides and Charitou (2004) by confirming that competing with dual business models can create great rewards in terms of additional revenues and competitive advantages for the entire firm. Third, our findings confirm some obstacles of operating dual business models that were discovered by Charitou and Markides (2003). As eBay classifieds is free to use, customers might shift from high-value activities to low-margin ones. Our findings also confirm Charitou and Markides’ (2003) argumentation that dual business models might lead to cannibalisation of the existing customer base and the dilution of the quality of services offered to customers. However, whereas Charitou and Markides (2003) have only focused on potential negative consequences of dual business models, our analysis also reveals positive consequences, i.e. exchange of key learning generated by the new business model, door opener function of the new business model to generate customers for the established business model, and access to new markets through the new business model.

The authors are aware of the fact that the strengths of our study must be weighed against the background of its limitations. Known as a prominent trade-off of qualitative research, and especially for single case studies, the interview sample was relatively small. Due to the fact that the interviewed managers had to be actively involved in the introduction phase of eBay classifieds and the fact that the launch of eBay classifieds dates back several years, the number of conducted manager interviews seems suitable. The research method used was appropriate since the overall aim was to generate a deeper level of understanding in this explorative context where little was known about the underlying reasons (why companies engage in BMI). Furthermore, case study research aims to achieve generalisation concerning the findings instead of having a large dataset (Yin, 2009). Due to the novelty of the research area addressed, we are convinced that the applied method is correct.

Future research could include how the reasons of engaging in BMI are affected by the foreseeable fact that the new business model will be less profitable than the old one. It might be also interesting to explore to what extent reasons of BMI change in the context of competing and non-competing business models. Another relevant direction for future research would be to compare the reasons, implementation efforts, and successes of traditional brick and mortar companies and e-commerce companies which have introduced competing business models.

Finally, this study sheds light on the manifold reasons behind why companies innovate their existing business model or introduce novel business models next to it. Hence, this research contributes to the many different reasons why companies choose to go down such a challenging path and the unforeseen consequences implied in doing so.
The introduction of a competing business model

Acknowledgements

We would like to thank the anonymous reviewers for their valuable feedbacks which have contributed to improve the final version of this work and Andrew German for supporting this paper.

References


The introduction of a competing business model


**Notes**

1 For clarification purposes, throughout this study the use of ‘eBay.com’ refers to the traditional marketplace and its international counterparts (i.e. ebay.de, ebay.fr, etc.), ‘eBay Classifieds’ refers to the various international classifieds platforms (i.e. ebayclassifieds.com, kleinanzeigen.ebay.de, etc), and ‘eBay’ or ‘eBay Inc.’ refers to eBay as a parent corporation.

2 Only available on selected eBay Classifieds websites.

3 Schufa is a German private credit bureau supported by creditors that monitors the credit worthiness of German citizens.