Global Strategic Management

The case of eBay in the Chinese online market

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Abstract

Strategic movements of companies trying to expand to other nations are of great interest especially in our globalised world. In order to enter to new markets, companies usually form alliances with local firms as an alliance can have advantages for both companies. This study touches on the definition of the global strategy and distinguishes it from international strategy. Furthermore an in depth research has been conducted on the vehicle of global strategic design, the international strategic alliances. However, much effort is put on the reasons that companies form such alliances and the reasons of failure. The purpose of this study is to identify the differences between global strategic management and international strategic managements, the reasons why companies select to act globally, and the challenges and difficulties that they face. Qualitative research was selected for this study. Secondary data were used in selecting the data and analyze them in order to formulate the case of eBay. eBay was selected for numerous reasons. Among them lie company’s international presence and the difficulties that the company faced in the Chinese market. The main findings of this study are that global strategic management and international strategic management are completely different indeed. Finally, there will be some implications in the theoretical and the managerial level regarding the main research questions.

Keywords: global strategy; global strategic management; international strategic management; international strategic alliances
Acknowledgements

Although I know that simple thanks are not enough, I take the opportunity to thank first of all my parents and my sister for their moral support, love, understanding and encouragement. Without their patience this research could not be conducted.

I would also like to thank my friends for their support and understanding and Christos for his love, support and patience, providing me with enough encouragement to finish this dissertation.

Last but not least, I would like to thank my Academic Advisor Mrs Lida Kyrgidou for her guidance, motivation and patience. Her deep knowledge provided me enough encouragement to conduct this study.
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Chapter 1: Introduction

The goal of this study is to gain insight with regard to the global strategic management and the role that international strategic alliances play in designing and realizing a global strategy. An in depth research will include examination of practices and decisions associated with international strategic alliances, as well as practices that companies use in order to enter the global market successfully. Further analysis of the international alliances and the globalization of firms will be held based on the example of the eBay case study and in particular, on the period in which it entered the Chinese market.

1.1 Background

This subject is of great interest particularly nowadays as we live in the era of globalization, which is one of the factors that motivate companies to act globally. Research on globalization and global expansion counts for many decades. One of the most important studies referring to global expansion is that of Sumantra Ghoshal in 1987. In his article entitled “Global strategy: an organizing framework” published in the Strategic Management Journal, Ghoshal provides a framework gathering all related theories to global management that existed at that time. Since that time, there have been several publications regarding this subject with the more recent to be the second edition of the book of Philippe Lassere in 2007, titled “Global Strategic Management”, in which he provides a very good analysis of the prospects of global strategy and global strategic management. In our globalised world, the international challenge faced by firms is dual. On one hand, they have to know how to achieve and maintain high exports’ rates to other nations, while on the other hand, how to defend domestic markets against imported goods. Few companies can afford to ignore the presence of international competition. Corporations in every corner of the world are taking advantage of the opportunities provided to share the benefits of worldwide economic development. This situation has led to more international labor markets. Up to this point, East Asian countries have become market leaders in labor-intensive industries. Strategic decisions are made based on their impact upon the global profitability of the firm, rather than on just domestic or other individual country
considerations. A global strategy seeks to meet the needs of customers worldwide with the highest value at the lowest possible cost.

In the current studies, the theoretical background referring to global expansion and international strategic alliances will be connected to a real case, that of eBay in the Chinese market. Case study methodology is thought to be more appropriate for this specific research as it will represent the reality, that firms confront when entering a new market and the difficulties that corporations are facing using the example of eBay, a successful online company in the U.S. market. Of course the results of this research cannot be generalized, as they are drawn based on the example of a particular company. On the other hand, the difficulties and the challenges that companies face are more or less the same when trying to expand globally. In addition, the fact that eBay is an internet based company will help the study to neglect some of the steps that other firms have to follow in their path towards globalization, since internet and the rapid technological development are tools of globalization. An internet based company is difficult to be categorized as local or global. Thus, the term that is more used in this situation is the term glocal.

1.2 Purpose of study and main research questions

The purpose of this research is to investigate the reasons for which big corporations that are domestically successful, want to expand to other markets and the problems and challenges they confront by with regard to such a decision. The main questions that this study attempts to address refer to the motives of going global, the challenges the companies are facing and the ways in which companies can overcome possible difficulties and convert them into advantages.

The theoretical part will be applied in the case of eBay, when the company tried to expand in the Chinese market. In particular, a thorough research will be conducted referring to the strategies the company followed, the reasons for selecting this specific market and the reasons of failure. In the concluding part there some recommendations are made with regard to what they could have changed in company’s strategic design in order to retain its competitive advantage.
1.3 Expected contribution

The expected contribution of this research is to reinforce the existing literature of global strategic management, as far as the international strategic alliances are concerned and to fill a gap in the literature regarding firm steps and efforts towards globalization decisions. More specifically, this research attempts to examine the gaps in the global strategic management literature and the reasons for which strategic alliances may fail. At the managerial level, the contribution is thought to be important, as the research will point out mistakes that companies should avoid when trying to go global, following the example of the eBay case study.

1.4 Study structure and development.

The research will be conducted in separate steps. In the first part a review of the existing literature will be conducted in order for the possible reader to obtain a spherical view about the theory referring to globalization, global strategy and international strategic alliances. Next the methodology chapter follows. This chapter describes the methodology that will be used – that of a case study-, the advantages and the disadvantages that this method has, the structure that will be followed in order to form the case and the sources of the data that will be used. After the methodology part, the analysis of the data will follow using the case study technique. The findings will be discussed with reference to the literature presented in the literature review and the aims and objectives that were mentioned in this part. Finally, the last part includes the outcomes of the study, the implications generated and the limitations from which the study suffers.
Chapter 2: Literature review

This Chapter reviews the literature on global expansion, global strategy, the drivers that push companies to expand globally and the role international strategic alliances play in global strategic planning. The reason why this particular topic is examined is the will to investigate the role that alliances play in the field of strategic planning and the success of a company that tries to expand globally.

2.1 Globalization

Over the past forty years, international trade and investment have grown rapidly. Firms have multiplied their presence outside their country of origin, employing more and more people; selling and buying internationally, more and more products are sold in similar stores with similar features and carry a common brand across the globe. In our times, even more companies confront by the need to globalize or die (Lassere, 2007). Although globalization has interfered in everyday life of companies worldwide, only in recent years there are references that are trying to explain more specifically this term. Of course there is not only one specific definition, as it is perceived differently from various scholars. It could be said that “globalization is the phenomenon of the progressive transition of industries from a multinational to a global competitive structure” (Lassere, 2007).

2.2 Global strategy

As globalization was the new trend by the early 1970s, new terms like “global firm” and “global strategy” have arisen. Although the term “global strategy” has been in use only since the late 1970s and began to assume widely spread use in the 1990s (Mellahi, Frynas and Finlay, 2005), interest in global strategy and organization has been increasing in the last two decades. There are many references in articles addressed to the term global strategy. In the last 30 years, there have been many efforts to determine a conceptual framework for literature referring to global strategy. Differences among authors are not only limited to concepts and perspectives. Their prescriptions on how to manage globally have also been very different and often
contradictory (Ghoshal, 1987). In the literature, there are several definitions of global strategy and global companies. According to Mellahi, Frynas and Finlay (2005), global strategic management is “a part of strategic management; thus the definition should be built on the basis of strategic management terms, with an added explanation of and focus on the global dimensions”. Global dimensions are debated in the literature, since they are all based on the five basic global dimensions of Yip (1989) and some have tried either to eliminate the dimensions or to further broaden them. Yip (1989) posits that a global strategy has five dimensions including major market participation, product standardization, activity concentration, uniform marketing and integrated competitive moves. However, Yip’s (1989) five dimensions of global strategy do not appear to capture Porter’s (1986) co-ordination of value. On the other hand, Mellahi, Frynas and Finlay (2005) support that there are only three dimensions of corporate globality: coordination and configuration, standardization and integration. According to coordination and configuration, global strategy is “the process of exploiting the synergies that exist across different countries as well as the comparative advantages (including resources that are inherited and resources that are subject of sustained investment over a considerable period of time) offered by different countries” (Mellahi, Frynas and Finlay, 2005). The standardization dimension defines global strategic management as the process of offering products across countries. According to this view, multinational companies pursuing a standardization strategy have a global strategy, while multinational firms pursuing an adaptation strategy should be referred as implementing an international strategy (Mellahi, Frynas and Finlay, 2005). Referring to the third perspective that Mellahi, Frynas and Finlay (2005) introduce, global strategy is concerned with the integration of competitive moves across country markets. At this point it would be worthy to delineate the key concept of global strategic management. “Global strategic management is the process of crafting a coherent, coordinated, integrated and unified strategy that sets the extent to which a firm globalizes its strategic behaviors in different countries through standardization of offerings, configuration and coordination of activities in different countries and integration of competitive moves across countries. Therefore, a global strategy involves the carefully crafted single strategy for the entire network of subsidiaries and partners, encompassing many countries simultaneously and leveraging synergies across many countries. (Mellahi,
This is in contrary to the term international strategy, which involves a wide variety of business strategies across countries and a high level of adaptation to the local business environment.

### 2.3 Global strategy vs. International strategy

In academia, prior to 1980s, the commonly used term was “international strategy” although some authors are trying to distinguish between global strategy and international strategy. On the other hand, some underline that, although these two terms are different, international strategy is incorporated into global strategy. According to Mellahi, Frynas and Finlay (2005) there are three main differences between global strategy and international strategy. The first refers to the degree of involvement and coordination from the center. Defining coordination Mellahi, Frynas and Finlay (2005) conceive the term as “the extent to which a firm’s strategic activities in different country locations are planned and executed interdependently on a global scale to exploit synergies that exists across different countries”. Moreover, international strategy does not require a strong coordination from the center, but global strategy requires significant coordination between the activities of the center and those of subsidiary (Mellahi, Frynas and Finlay, 2005). Following the same analysis by Mellahi, Frynas and Finlay (2005), the second difference between those terms and their practices relates to the degree of product standardization and responsiveness to local business environment (Mellahi, Frynas and Finlay, 2005). Product standardization “is the degree to which a product service, or process is standardized across countries” (Mellahi, Frynas and Finlay, 2005). The diversification between international strategy and global strategy according to standardization factor is the extent of localization of the provided product or service. An international strategy assumes that the subsidiaries can adapt the product or service offering according to the market needs, unless there is a good reason of not doing so. On the contrary, global strategy assumes that the “headquarters” should standardize its operations and products in all the different countries, unless there is a compelling reason for not doing so (Mellahi, Frynas and Finlay, 2005). The last but not least difference between international and global strategy has to do with strategy integration and competitive moves (Mellahi, Frynas and Finlay, 2005). According to
their definition “integration” and “competitive moves” are “the extent to which a firm’s competitive moves in major markets are interdependent. The international strategy gives subsidiaries the interdependence to plan and execute competitive moves interdependently. Thus competitive moves are based exclusively on the local competition. In contrast, global strategy plans and executes competitive battles on a global scale” (Mellahi, Frynas and Finlay, 2005). Yip (2002) notes that international strategy treats competition in each country on a standalone basis, while global strategy takes ‘an integrated approach’ across different countries.

The previous in depth discussion that discriminates the terms of global and international strategy will be proved very useful for defining the strategy that eBay followed in the Chinese market and the mistakes into which the company fell in entering the specific market.

2.4 Steps in formulating a global strategy

Logically most firms that act locally wonder why to act globally. Most companies in their start up stage tend to be more localized trying to position in their home countries. The next step that a company can make is trying to export its goods to other countries when the domestic status remains of primary importance. Furthermore, international strategy follows when the firm establishes subsidiaries outside its home market. During this phase, each subsidiary is likely to have its own strategy and will analyze, develop, and implement that strategy by tailoring it to its particular local market. As multinationals mature and move through the first three stages they become aware of the opportunities to be gained from integrating and creating a single strategy on a global scale. Moving from a domestic or international strategy to a global strategy is not an easy process and creates various strategic challenges. (Lassere, 2007)

The extent to which a multinational company adopts a global strategy is determined by three categories: macro globalizing drivers (external), industry globalizing drivers and internal globalizing drivers (Lassere, 2007). Macro globalizing drivers include globalization, information and communication technology. Globalization includes global economic integration, political globalization and globalization of ideas and
rules. On the other hand, the development of technology has shrunk the distances, information flow is now more complete and faster than in previous years, more accurate, timely and accessible (Lassere, 2007). Moreover, industry globalizing drivers include market globalization drivers, cost globalization drivers, government globalization drivers and competitive drivers. Market globalization drivers are referring to evidence that suggest that several markets are converging around the world. Cost globalization factors include global scale economies, sourcing efficiencies and cost advantage (comparative advantage). Cost factors are thought to be the most important factors that lead companies to act globally. The impact of government drivers on industries is an important factor that influences global strategies. Governments have different policies for different industries. While there is a tendency to lower trade barriers and less regulation, for a few sectors trade barriers are prohibitive and highly regulated governments. In addition to trade barriers and regulations, technical standards are becoming similar around the world. Finally, intense competition across countries and the continuous increase in the number of global competitors, multinational firms are factors that lead companies to follow a global strategy. To conclude, two key internal factors significantly influence the extent to which a firm adopts a global strategy: global orientation and international experience (Lassere, 2007)

2.5 Global strategic management
In order to define global strategic management, Mellahi, Frynas and Finlay (2005) use the three differences from international strategic management. Based on the previous analysis, global strategy dimensions can be categorized in three main dimensions: the configuration/ coordination, standardization, and integration dimensions. The following figure is adopted from Mellahi, Frynas and Finlay (2005) in order to indicate the three dimensions of global strategic management.
To address this void in literature, the current research is going merely to focus on the “vehicle” of global expansion, which is an international strategic alliance.

2.6 International strategic alliances

In order to enter to a new market or to access a series of resources, companies may create new entities (Radu, 2010). However this is not the only choice. Strategic alliances may serve these objectives as well. “An international strategic alliance is a strategic cooperative agreement between two or more firms from at least two different countries which involves exchange, sharing, or co-development for achieving strategically significant objectives that are mutually beneficial and beyond what a single firm could have achieved on its own” (Lassere, 2007). If these are correctly implemented, organizations’ operations and competitiveness may improve significantly.
According to some researchers, a large percentage of companies form alliances due to marketing and promotional objectives, access to new technologies, access to new markets, to offset political risks etc. On the other hand, although many companies want and even try to form alliances, surveys show that almost 70% succeed in doing so (Radu, 2010).

Global alliances are more complex than local alliances and restrained in their strategic and economic scope (Lassere, 2007). Doz and Hamel (1998) distinguish three broad categories of strategic alliances.

1. Coalitions are “alliances of competitors, distributors and suppliers in the same industry putting together their capabilities with the view of spanning world markets or to establish a common standard”. (Lassere, 2007)

2. Co-specializations are “alliances of firms that join their respective unique but complementary capabilities to create a business or develop new products or technology” (Lassere, 2007)

3. Learning alliances are created in order to transfer know-how between partners. (Lassere, 2007)

Another classification categorizes international alliances as vertical (alliances between buyers and suppliers) or horizontal (alliances between competitors). This classification gives a broader view of the types of strategic alliances than described in the previous categorization (Mellahi, Frynas and Finlay, 2005)

2.6.1. Drivers for forming strategic alliances

In the literature, forces and drivers for forming these kinds of alliances are referred to differently. Among drivers that force the forming of strategic alliances are globalization and technological factors (Lassere, 2007). From a critical perspective, there is no evidence that these two are the only drivers that push companies to attain an alliance. There are of course more specific factors that are responsible for creation
of strategic alliances. In the following part there will be a review of the reasons why companies actually form strategic alliances.

a. Growth and penetrating new markets

Growth and penetrating into new markets strategies are some of the main reasons for creating strategic alliances. In today’s global economy, creating an alliance with a company already operating on the desired market is a tempting option. The partnership with an international company may turn the expansion to an unknown market into an easier experience. (Radu, 2010)

b. Access to new technologies and/or the best quality or the lowest cost

Not all the companies have the required technology for competing on a specific market. Therefore, they create alliances with other companies that have the necessitated resources. By such a strategic movement, both parts gain advantages. Another important reason for creating strategic alliances is outsourcing. Furthermore, many companies form strategic alliances in search of the best quality or technology, or the cheapest labor or the lowest production costs. (Radu, 2010)

c. Reducing the financial risk and splitting R&D expenses

In some companies financial risk that appears is just too high for a single company to undertake. In such a case, two or more companies group together and agree to take that risk together, considering that strategic alliances represent an excellent way for better serving their customers. They may form partnerships with others that also need help and can give some help in exchange. (Radu, 2010)

d. Gaining and sustaining a competitive advantage

“Strategic alliances are very tempting for small businesses, for which sometimes the only alternative to stay competitive and survive in today’s technological evolution, in such a changing world, is to form strategic alliances with other companies” (Radu,
By creating strategic alliances with other companies, small firms are able to get involved in biggest projects faster and to be more profitable than they could do only by themselves. Radu (2010) further supports that “through alliances companies can obtain the required resources and capabilities to successfully compete on the global market and presently very few companies are based only on their own forces.”

2.6.2 Failure reasons of strategic alliances

In many cases the results of strategic alliances were not the ones expected by involving parts. Most researches focus on finding the factors that lead to success rather that the ones that lead to failure of strategic alliances. The following part of the research will be focused on the reasons of failure (Radu, 2010):

a. Cross-cultural issues and incongruity

Moreover, Radu (2010) argues that cross culture is one of the main problems facing companies involved in strategic alliances. The first element that can lead to problems is the communication and mutual understanding. These two factors are very important for cooperating companies. Different cultures tend to approach business differently.

b. Lack of trust

Risk sharing is the main linking tool in a partnership (Radu, 2010). There are some chances that a company attains its goal, while the other fails. The feeling of commitment and trust must be generated for the whole partnership, as they are on of the most important and also the most difficult target for a successful alliance. Therefore, companies have to be formed based on individuals’ trust (Radu, 2010). Trust should be developed in its three forms, namely responsibility, equality and security. Many strategic alliances have failed because of the lack of trust that led to problems impossible to be solved, lack of understanding and cooling relationships (Radu, 2010).
c. No clear or good objectives

Many alliances start from wrong reasons. This is for instance, the case of companies that enter alliances in order to overcome competitors. On the contrary, this action will emphasize the existent problems between the companies that have joined together. According to Radu (2010), “an alliance can better clarify partners’ positions, and if their interests are not mutual, competition will not decrease, it will increase”. Furthermore, alliances are created in order to solve a series of internal problems of a company. On the contrary, new issues will arise and the old ones will deepen. There are also many strategic alliances that were created for reasons and they still do not function (Radu, 2010). Among reasons that destroy an alliance are different objectives, the incapability of risk sharing and lack of trust. According to Radu (2010), “cooperation in every important aspect is the key to a successful strategic alliance. Unfortunately, many managers enter an alliance without taking the necessary steps in order to ensure the basic cooperation principles.”

d. Lack of coordination between management teams

Decisions taken by one part that do not correspond to requirements and objectives of both management teams may lead to serious problems in the implementation of a strategic alliance. Actions like the ones described previously can increase the possibility of destruction of an alliance (Radu, 2010)

e. Differences in operational procedures and partners’ attitudes

Different attitudes of the companies involved may generate other problems. For example, difference in delivery time or lower qualitative parameters can deteriorate the partnership, according to Radu (2010).
f. *The relationships risk*

“This potential risk refers to the probability that partner companies do not have a real commitment to the strategic alliance, and their opportunistic behavior to undermine the partnership’s perspective” (Radu, 2010). Of course, companies are more interested in following their own interest rather than the common one. Radu (2010) argues that as these activities jeopardize the alliance’s feasibility, the relationships risk is an important component of the total risk assumed by strategic alliances.


g. *The results risk*

Result risk refers to the possibility for an alliance to fail even when partner companies have a total commitment to the alliance. This situation is related mainly to external factors such as changes in government policies, wars, economic recession, high competition and demand fluctuations and internal factors, such as lack of competition in key domains (Radu, 2010).

h. *Creation of a future local or even global competitor*

There are some cases when a partner will use the alliance in order to test a market and on this base to prepare the launch of their own subsidiary (Radu, 2010). Companies will reduce the risk of creating a competitor, who can be a real threat in their main business strategic operations, by refusing to cooperate in their operating market. “*It is also possible for a company to insist on contractual clauses that constraint partners not to compete in specific areas or for specific products (this barrier may be created, but only for a limited period of time)*” (Radu, 2010). In addition intellectual property may also be a victim of strategic alliances in research and development field.

Managers must know when to adhere on a strategic alliance and when to terminate it. Alliances may be terminated for several possible reasons. The collaborative relationship may break down in partner disputes that cannot be resolved; the alliance may accomplish its mission and therefore outlive its purpose; partner strategies may
change eliminating the need for the alliance; or adverse action by regulatory authorities’ forces alliance to break up. (Lassere, 2007)
Chapter 3: Methodology

This part focuses on the ways in which the research was conducted, on the resources that were used and on important research details used in order to formulate the analysis of the case study that follows in the next part.

3.1 Research design

The research design is an approach that helps answering the research problem in the best possible way considering certain limitations (Zikmund, 2000). It is the choice of the best way on how to conduct research and what information is needed to be gathered in order to answer certain study questions. In addition, the design of the research depends on the type of the main research question. Among numerous categorizations of research design, three main categories have been highlighted as most important: exploratory, which main objective is to discover, explanatory, which aims to test, to explain or to compare and finally descriptive, which seeks to establish the answers to who, what, when, where and how (Zikmund, 2000) or briefly to provide a description of various phenomena by breaking them into component parts.

Based on the nature of the research questions of this study described in the previous part and on the categorizations of research design mentioned previously, descriptive and exploratory research designs are employed for the purposes of the current study.

3.2 Research approach

Research can be approached in various ways, but for this specific study qualitative approach is used, after a comparison between quantitative and qualitative research

Qualitative vs. Quantitative

Qualitative research methods were developed in the social sciences to enable researchers to study social and cultural phenomena (Myers, 2009). According to Zikmund (2000), qualitative research is subjective by its nature and is characterized by the nearness of the object of research. According to Zikmund (2000), qualitative
research does not focus on numbers but in words and observations, stories and interpretations. The qualitative method focuses on acquiring profound knowledge and understanding of the studied object or objects. In addition, qualitative research is used to further add or investigate, interpret and understand the phenomena by the means of an inside perspective. Myers (2009) argues that qualitative research is more suitable for an in depth study of a particular subject. It is appropriate for exploratory research and ideal for studying the social, political and cultural aspects of people and organizations.

However, due to the fact that the data are often limited, qualitative research is not appropriate for generalizations of the findings to a larger population (Myers, 2009). Yin (2003) argues that there are ways to generalize using qualitative research methods but not by using sampling logic.

According to Myers (2009), quantitative research methods were originally developed in the natural sciences to study natural phenomena. In addition the majority of quantitative researchers emphasize in numbers and use statistical tools and packages to analyze their data (Myers, 2009). Moreover, a qualitative research implies the search for knowledge that will measure, describe and explain the phenomena of our reality. It is often formulated well structured and data are quantitative, obtained from sample and observations (Yin, 1994). This kind of research is best for a large sample size and for generalizations to a large population. In this case, the objective is to study a particular topic across many people or many organizations. According to Myers (2009) a major disadvantage of quantitative research is that many of the social and cultural aspects of organizations are treated superficially.

Taking the previous discussion into consideration, qualitative research is thought to be more suitable for the purposes of this study.
3.3 Research strategy

According to Yin (2003), there are five main research strategies: experiment, survey, archival analysis, history, and case study. Experiments have the greatest prospective for establishing cause and effect relationships. In addition, they allow exploring changes in one variable at the same time by controlling one or two other variables. (Zikmund, 2000). Survey tends to be used for exploratory and descriptive research, allowing the collection of large amounts of data from a sizeable population. Data obtained from survey, are standardized allowing easy comparison. But survey data are unlikely to be as wide ranging as those collected by other research strategies. (Saunders et.al, 2003). Moreover, archival analysis uses records and documents as its principal source of data, namely secondary data. This type of analysis does not require control on behavioral events. Furthermore, history as research strategy is more appropriate in gaining insights about a particular context and interprets it for perspectives. Finally, case study analysis is mainly used when the type of the research questions is “why” or “how”, when the conductor has little or no possibility to control the events and when focus is on a contemporary phenomenon within its real-life context and boundaries between phenomenon and its context are not clearly evident (Yin, 2003)

The selection of research strategy should be done based on three conditions (Yin, 2003):

a. Type of research questions: basic categorization scheme for the types of questions is the familiar series “who, what, where, how and why”. This part of research is the most important step to be taken in a research study.

b. The extent of control an investigator has over actual behavioral event

c. The degree of focus on contemporary as opposed to historical events

The last two conditions are equally important and they can determine the research strategy that will be followed in each study. In the following table relevant situations for different research strategies are summarized.
### Table 1

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Form of research questions</th>
<th>Requires Control on Behavioral Events?</th>
<th>Focuses on Contemporary Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experiment</td>
<td>How, why?</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Survey</td>
<td>Who, what, where, how many, how much?</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Archival analysis</td>
<td>Who, what, where, how many, how much</td>
<td>No</td>
<td>Yes/No</td>
</tr>
<tr>
<td>History</td>
<td>How, why?</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Case study</td>
<td>How, why?</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Source: Yin, 2003, p. 5

Following the research strategy selection criteria, it is thought that case study strategy would be more appropriate for this study, since the study seeks to answer how and why question and the researcher has no control of behavioral events and because the study focuses on contemporary events.

### 3.4 Data Collection Methods

According to Yin (2003) data collected for single case studies are not restricted to one source in order to examine a limited number of variables, but allows evidence from multiple sources (Yin 2003). The following section presents how the different data were collected, and analyzed in order to live up to the case study ideal of valid interpretations. Thus, multiple data collection methods were selected in order to gain as much insight as possible to the global strategic management and to the case of eBay in the Chinese market. Taking the nature of the case study’s subject and the difficulties in obtaining primary data into account, the only option is the assessment of
secondary data. Sources of secondary data that were used are scientific papers and books, reports and publications and web pages.

3.4.1 Scientific papers

An extensive literature search on scientific papers from similar global strategic management was conducted. Jiangyong Lu and Zhigang Tao (2007) prepared the case study “eBay’s strategy in China: alliance or acquisition”. In this particular case the reasons of eBay’s failure in China were found not only in the differences that the Chinese site of the company had compared to its competitors, but there is a space for future analysis of the trail of the strategic alliances that the company made, in order to preserve its market share in the Chinese e-commerce market namely after 2007. In its first part, the research points out some essential information about eBay. Afterwards, the environment and the conditions that existed at that time period are reviewed in depth. The case continues referring to eBay’s Marketplaces and to a short discussion about the Chinese Online C2C market. To continue with, in depth analysis is held with regard to eBay’s development in China.

Another important study referring to the case is a comparative study between eBay and Taobao conducted by Trites and Yue (2008). This study is a classic study that focuses on the main differences of the two competitors and the strengths and weaknesses of each company separately.

3.4.2 Journals and articles

Since the subject of reference (eBay and the Chinese online market) is very important and very popular, there is a vast of articles in various journals and newspapers. A collection among these was conducted based on validity and reliability criteria that will be discussed later on.
3.4.3 Web pages, brochures, etc

Data was collected in order to better understand the competitive frame of reference. While the data offers insight into the competitive frame of reference, further research is suggested in order to validate findings. The main web sites that were used in order to design the case study and analyze the data were the involving companies’ websites as well as websites of journals and libraries worldwide.

3.5 Data Analysis

The analysis is made by identifying and linking the qualitative data collected to the research issues. Data analysis is the request of reasoning to understand and infer the data that have been collected about a particular subject (Yin, 2003). The main aim of analyzing the data is to treat the evidence fairly, to produce compelling analytical conclusions and to rule out alternative interpretation. The most commonly used strategy is relying on theoretical preposition, resulting in collection of the data, and is based on the research question taken from previous studies. The results obtained from this study are then compared with the results and findings in the existing literature.

Iteration between propositions and data, matching sufficiently contrasting rival patterns to data was held. Although the design and the completion of the research were conducted within a three months’ period, the case study covers a five year period of eBay’s practices in China, particularly after the company’s entrance in China and from then on.

3.6 Research Quality

The quality of the investigation increases if the validity and reliability are assured. In order to conduct a reliable investigation, certain steps should be followed to test the research findings. It is important to keep in mind that mistakes might affect the results of investigation and the data collected should be evaluated.
3.6.1 Validity

Validity is one of the measures to be checked. Yin (2003) identifies two ways to test validity including external validity and internal validity. Internal validity deals with the reality of the findings and how these findings reflect the reality. During the investigation and collection of data process, the use of as many as possible sources in order to improve and broaden the perspectives of the investigated issue was attempted. The research questions were designed in a precise way in order to lead the research. External validity deals with the problem if the findings can be generalized beyond the immediate case study.

3.6.2 Reliability

The main purpose of reliability in the research is to avoid errors and biases. Reliability can be tested if the same case is done over again by another investigator and, if he comes to the same findings and conclusions (Yin, 1994). However, it is obligatory that another researcher should follow exactly the same procedures, taken by the previous one, and the investigation should be made at the same time. In order to increase reliability of the eBay case and the data presented, all efforts were put into selecting the information from trustworthy sources. Due to the difficulties I faced because of the lack of primary data to use for this study, most of the data that were used were secondary data. To facilitate the reliability of secondary data, various sources were used.
Chapter 4: Data analysis and Discussion

4. A The Case of eBay

4. A.1. Introduction to the case

EBay Inc. and its international presence, in the form of an e-commerce and auction site, along with the company’s subsidiaries in almost every place in the world, was selected as an explanatory example explicating and underlining the theoretical background of the concept of global strategic management and international alliances.

EBay Inc. has a strong global presence in e-commerce as an online auction site by developing strong strategic movements across the globe.

On the other hand, the Chinese market, as it will be mentioned in a separate part of this study, seems to be distinct from the other markets in the world. In December 2006, eBay Inc. announced its plan to form a joint venture with a local based online portal and wireless operator, TOM Online, in which eBay would hold 49% of the ownership. This joint venture with TOM Online was not the company’s first attempt to join China’s online market. In 2002, after its cooperation with Eachnet—the first C2C online company in China, eBay became the largest online trading company in China, by controlling 90% of the Chinese C2C market. The success continued until Taobao, a completely free online C2S platform, established in China by the founder of Alibaba.com. Taobao quickly became dominant in the Chinese online C2C market, controlling as much as 69% of the market 2005, compared to eBay’s 29%.

Taking the above information into consideration, interest lies in the reasons for which this situation occurred and the ways eBay could perhaps overcome its weak position and regain its market share. Among related questions that rose, some referred to the following: Had eBay made the right strategic movements when trying to expand globally? What could the company change in the strategic design in order to maintain or to have less market losses? How did the joint venture with TOM Online help the company to preserve its market share?

In order for the study to have a more logical structure an in depth analysis of the Chinese online market will be firstly conducted. After that part, a short reference to
eBay’s global presence and the company’s marketplaces will follow. These two parts will introduce us to the main case study, the entrance of eBay in the Chinese online market. The case study will cover a time period of five years approximately.


The People’s Republic of China (PRC), commonly known as China, is the most populous country in the world with over 1.3 billion people. Located in East Asia, China is governed by the Communist Party of China (CPC) under a single-party system. The PRC exercises jurisdiction over 22 provinces, five autonomous regions, four directly administered municipalities (Beijing, Tianjin, Shanghai, and Chongqing) and two highly autonomous special administrative regions (SARs) – Hong Kong and Macau. Its capital city is Beijing.

In 2009, the number of Internet users in China increased to 384 million, representing 29% of the population. China is predicted to have 476 million Internet users by 2013, which is more than the next four countries together will have by then. In the first half of 2009, there were 155 million mobile Internet users and nearly 320 million broadband users in China. China has a very young online population, with 32% of Internet users between 10 and 19 years of age in the end of 2009. China has 404 million Internet users, according to the China Internet Network Information Center, having grown by 86 million, or 28.9 %, between 2008 and 2009. In 2008, Internet-related industries generated a turnover of 650 billion Yuan, which Deutsche Bank estimates grew by 36 % year-on-year to total 884 billion Yuan in 2009.

According to the report conducted by iResearch with the title “China B2C E-Commerce Report 2010”, there are currently 20,700 e-business websites according to the China e-Business Research Center, which Deutsche Bank expects to grow to more than 23,000 by the end of 2010, with total sales revenue of 20 billion Yuan. C2C gradually became the capital of the "Hong Momo”. The business-to-consumer (B2C) and consumer-to-consumer (C2C) segments are expected to grow by a compound annual growth rate of 42% to 1.523 trillion Yuan, and will account for 7.2 % of all domestic retail sales by 2014. Internet penetration is expected to grow by 59.3% to 812 million individual users. According to Analysys International recently released
study shows that by 2011, B2C market will reach 13.6 billion Yuan, while the C2C market transactions will reach 201.3 billion Yuan, nearly 15 times the former. C2C will usher in a new round of rapid development of high tide. The nation's e-commerce market is expected to reach 1.5 trillion Yuan ($220 billion) by 2014, as Deutsche Bank stated in a recent report.

Based on the statistical evidence provided above, the Chinese online market is thought to be very attractive to companies that are operating online.

“It is not difficult, at face value, to see what is driving Western interest in China’s internet sector. China’s heady economic growth continues to dazzle investors of all shapes and sizes. Its manufacturing led boom and gradual integration into the global trading community is creating potentially vast opportunities for foreign companies. The internet is at the forefront of this so-called ‘gold rush’. Growing prosperity, technological advances and a more liberal attitude by the Chinese authorities means the internet is becoming an easier and more popular place to do business” (Gavin Stamp, author, 2005).

In general the Chinese online market has many different characteristics from the Western online markets. Among other reasons that make this particular market distinctive, lie the existing political system and the controls that this system imposes to the companies that want to operate in the Chinese market. The main users of e-commerce are mainly young people, between 14-30 years old, with a preference in cheap markets. In addition, they want to feel secure for their transactions and feel comfortable with the site that they use. They prefer more simple sites that are easy to use. Shopping in China is done mainly in thousands of small shops that “line dusty rural streets and Shanghai alleyways rather than in vast shopping malls common to U.S.”. People involved in any kind of transaction want to trust the supplier of any product, often meet the supplier, and have a conversation about the quality and the origin of the product they want to purchase. Thus, trust and safety in transactions are the key words for the Chinese market. Finally in comparison to European and U.S. market, at the time of eBay’s entrance, the Chinese online market was almost completely unregulated. What was the main purchase point in eBay was not fulfilled
since buyers and sellers were still individuals and corporations did not sell their inventories online yet.

4. A.3 EBaY and its international presence

Background and development

On Labor Day weekend in 1995 in San Jose, the computer programmer Pierre Omidyar wrote the code for what he called an “experiment”. His vision was to create a single global marketplace. EBay is a remarkably efficient market created by connecting individuals who would not otherwise be connected. It was the world’s first example of online social networking. Since then, eBay has grown to have a presence in 39 markets (including partnerships and investments) with more than 90 million eBay.com users worldwide, trading more than $1,900 worth of goods each second. In 2002, the eBay community made it clear that they preferred using PayPal as an online payment method. So eBay acquired PayPal, which brought new efficiencies to e-commerce and redefined possibilities for eBay's future. The company has since expanded by acquiring innovative businesses, such as Shopping.com, Stub Hub, Bill Me Later and others, which have positioned the company as the global leader in e-commerce and payments. Building on Pierre's entrepreneurial legacy, eBay continues to passionately believe in the potential of technology to connect people around the world (http://www.ebayinc.com/history). In 2000, eBay was characterized as the number one e-commerce site and in 2003 the company was listed at #8 on Fortune's list of Fastest Growing Companies.

In 2001, Meg Whitman, a Harvard alumnus, with working experience in big companies, became the CEO of eBay with Pierre Omidyar to remain in the company as Chairman of the Board. As we will see in the analysis that will follow Whitman’s presence at the leadership of the company and the decisions and vision she had, played a significant role in eBay’s entrance in Chinese online market and the strategic movements the company followed.
The eBay’s Marketplace and international growth.

“The eBay Marketplace creates a powerful online platform for the sale of goods and services by a passionate community of individuals and small businesses. On any given day, there are millions of items available through auction-style and fixed-price trading. With millions of buyers and sellers worldwide, eBay offers localized sites in the following markets. “Ebay annual report, 2009”

Table 2

<table>
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<tr>
<th>Asia Pacific</th>
<th>Europe</th>
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<td>Australia</td>
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<td>Switzerland</td>
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<td></td>
<td>United Kingdom</td>
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</table>

Source: [http://www.ebayinc.com/history](http://www.ebayinc.com/history)

There is no doubt that nowadays eBay operates in most countries of the world, not only as an individual company, but also through acquisitions and joint ventures with local online sites. The company’s first attempt to expand outside America was its entry to the German market in 1999, four years after the company’s establishment. EBay’s entrance in the German market was held under acquisition with a localized
site (alando.de AG) in order to form eBay Germany. Its first attempt proved to be very successful and, after that step, the company started to expand to other countries too. By the end of 2006, eBay was boasting 14 percent market share in the e-commerce market globally.

Despite starting small, eBay belonged in the minority of online commercial sites that proved to be successful even in its first month of operation. Millions of items in a wide variety of categories are traded every day in almost every place in the world.

The importance of global expansion for the company is shown by the significant role that the vision of expanding global has, as stated in the annual report:

“We will continue to work toward our goal of creating the world’s leading ecommerce franchise by investing in our core Marketplaces segment and continuing to build our adjacent Marketplaces businesses. We believe that, if successful, we will increase the number of items sold on our sites. (EBay Annual report, 2009)”

Through the history of company’s global actions, we can conclude that eBay has followed certain paths to its global expansion by offering a more standardised service with certain features and characteristics and tried to localise its offering when needed.

4. A.4. EBay’s entrance in the Chinese online market

“China is unique. It is growing rapidly, and it has tremendous amount of potential, which is why we have made it a priority for the company...market leadership in China will be a defining characteristic of leadership globally” Meg Whitman, former eBay’s CEO, 2003

Although online auction sites have been available in China since 1998, activity grew in a slow rate has been slow to grow. The main barriers have been lack of trust, and an efficient and effective payment mechanism, as well as slow internet access, government constraints, inadequate legal system in protecting the interests of the companies that are operating in this particular market, currency problems and the general instability that exists in the country. Having an in depth awareness of the
constraints and difficulties that the company would face in China, eBay wanted before completely entering the Chinese online market (2003), to ‘test the waters’ by acquiring the 33% of the share of number one’s domestic auction site in China, that of Eachnet’s (2002).

**Eachnet**

Eachnet was the leading e-commerce company in China, allowing its community of users to buy and sell a wide range of items, from clothing and antique calligraphy to computers and real estate, in both auction and fixed-price formats. Eachnet was founded by Bo Shao, a Harvard MBA alumnus with working experience in Boston Consulting Group, and Haiyin Tan in 1999, and its early investors included Whitney & Co., AsiaTech Ventures Limited, and Orchid Asia Holdings. In 2003, Eachnet had 4 million users, a number that was translated in 85% market share of online auctions in China, according to the company’s CEO Bo Shao. The company was growing fast, due to the offering of a convenient shopping option, which is not often found in China.

The design of Eachnet was based on the eBay platform. Shao has altered this platform in order to make it more appropriate for the Chinese online market. Although in its first steps the company’s services were offered for free, fearing the cost conscious consumers, after the big success that the company achieved, Eachnet started to charge listing fees and a separate fee once the transactions were completed. Furthermore, buyers and sellers had the opportunity to rate the quality of the transaction, the product quality, order processing and delivery, a service that was copied entirely from the eBay services. Other similar features include the ability to conduct trades at fixed prices rather through bids as it is in eBay (Rebecca Fannin, Regional Report). EachNet also provided the opportunity to its users to meet in order to complete the transaction since the majority of the users did not have credit cards, taking into consideration the characteristics of the consumer behaviour already described, and thus cash was the only option. Among Eachnet’s success factors were the operational strategies the company followed, the sufficient invested capital and a sound business system.
In February 2000, just 6 months after the beginning of its operations, the company had 220,000 online users and the capability of holding 20,000 auctions online simultaneously each day. Its gross transaction value acceded US$ 12 million, translated to an over 50% of the existing market share. By 2002, Eachnet was the number one player in online auction market. After the acquisition with eBay, as we will examine in the next part of this study, the number of Eachnet’s registered users rose about five times within two years, to reach 4.3 million by the end of 2003.

**EBay Eachnet.**

As previously mentioned, Eachnet attracted the interest of eBay very soon, which resulted into the latter’s investment in Eachnet twice. The first investment and partial acquisition took place in March 2002, when eBay invested US$30 million to acquire the 33% of Eachnet in order to test company’s strengths in Chinese online market. The test proved successful and eBay fully acquired the company in June 2003, for US$150 million. The new company was branded in Chinese online market as *eBay Eachnet*. During those two years and with eBay’s support, Eachnet formed alliances with the top three Chinese Internet portals, Sina, Sohu and NetEase, and leading vertical websites, including China’s biggest online game operator, Shanda. By the end of 2003, the number of eBay’s Eachnet registered users rose about five times in the two years to reach 93% of market share. The acquisition was a great success and both companies were satisfied. One of the main changes that this acquisition brought was the listing fees that were charged to the users and initially it found great response. Moving on, the items purchased in the new site were most likely to eBay’s platforms used in almost every country the company operates. In comparison with Eachnet, in eBay buyers could find items that could not be easily found in other auction sites. On the other hand, Eachnet provided a far broader mix of goods on its site. Both parties focused primarily on improving the existing site and make it more appropriate to the local market by integrating Eachnet into the global eBay platform. After the acquisition Eachnet’s founder, Bo Shao, retired from daily operations of eBay China and moved to U.S. with his family. EBay sent a number of expatriates from Germany, the U.S., Korea, and Taiwan to run the
China division and hired a number of senior executives from other multinational corporations in China. Furthermore, eBay Eachnet (eBay China) planned to spend an extra $100 million to improve its technology platform and promote eBay’s brand in China. Finally, at that time, almost every leading website in China signed exclusive advertisement programs with eBay Eachnet.

**Alibaba.com**

Meg Whitman, CEO of eBay and the team that operated in China, put a lot of effort in the improvement and the expansion of eBay Eachnet, ignoring the fact that maybe a competitor would come up. In fact they thought that there was no option and that eBay Eachnet would be the market leader in a market that lacked of main competitors.

These thoughts proved wrong. Jack Ma, an English teacher, had a dream of creating his own e-commerce site. In 1999, he established Alibaba.com, a B2B e-commerce site for companies that wanted to find suppliers in China. His vision was “to build an e-commerce ecosystem that allows consumers and businesses to do all aspects of business online...to create one million jobs, change China's social and economic environment, and make it the largest Internet market in the world.” Although his vision could be heavily criticized as ambitious, it has been proved that it was on the right path. In August 2005, Alibaba.com attracted the interest of Yahoo.com, which, at that point of time, tried also to enter the Chinese online market and the two companies formed a strategic partnership, by providing to Yahoo 40% of interest in Alibaba. This partnership was also resulted in the found of Taobao.

**Taobao**

Taobao, which in Chinese means seeking for treasure, was founded in May 2003 as a subsidiary of Alibaba.com, operating in C2C online market. Quickly, Taobao became dominant in the Chinese online C2C market controlling as much as 67% of the market in 2005, compared to eBay’s 29%. In order to promote Taobao, Jack Ma decided to fight face to face with eBay Eachnet, by providing the sites services for
free. In 2004, Taobao already occupied more than 50 percent of China’s consumer-to-consumer market.

**EBay Eachnet versus Taobao**

An in depth analysis of the literature has been conducted, describing the main differences that the two companies demonstrated. These differences will be summarized in the table below, regarding seven factors of segmentation: pricing strategies, target market, web design, customer service, security in transactions, communication between sellers and buyers and auction structure.
<table>
<thead>
<tr>
<th></th>
<th>eBay Eachnet</th>
<th>Taobao</th>
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<tbody>
<tr>
<td>1.</td>
<td>Pricing strategies</td>
<td></td>
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<tr>
<td></td>
<td>- Insertion fees</td>
<td>- free for buyers and sellers</td>
</tr>
<tr>
<td></td>
<td>- Final value fees</td>
<td>- analysis of the online market which was immature to accept customer</td>
</tr>
<tr>
<td></td>
<td>- Gallery feature fees (cancelled in 2008)</td>
<td>service fee</td>
</tr>
<tr>
<td></td>
<td>- No survey of the Chinese market</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Target market</td>
<td>- More broader including students also</td>
</tr>
<tr>
<td></td>
<td>- Mainly addressed to young professionals that earn salaries</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Web designs</td>
<td>- Regarded as top among sites people mostly loved</td>
</tr>
<tr>
<td></td>
<td>- More product centric</td>
<td>- Designed according to customers’ likes and dislikes (adapted quickly</td>
</tr>
<tr>
<td></td>
<td>- Slow loading speed</td>
<td>to customers opinion)</td>
</tr>
<tr>
<td>4.</td>
<td>Customer Service</td>
<td>- Online instant messenger</td>
</tr>
<tr>
<td></td>
<td>- Maintained the U.S. policy of having F.A.Q.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Only email questions or massive online discussions</td>
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</tbody>
</table>
Of course the differences provided in the previous table indicate some reasons for which eBay Eachnet has lost significant market share in such a small period of time. In the analysis that will follow, other not so obvious reasons will be revealed.

**Why eBay has lost its market share in the Chinese online market**

To begin with, the structure of the Chinese market itself was more threatening than the company thought at first hand. The Chinese tendency in supporting China based and original Chinese companies was one of the factors resulting to the loss of eBay Eachnet’s market share. Trust and security, in accordance with the in depth knowledge of the market were the key words of Taobao success towards eBay Eachnet. For example, the payment methods used by eBay Eachnet provided rating in the end of the transaction. The whole process of transaction is as follows: the buyer sends the payment to the seller and the seller, after the acceptance of the
payment sends the product to the customer. eBay’s history proved that this system was not so safe. The fact that the company could not provide an online conversation between buyer and sellers, thought also not appropriate for the Chinese market as it was not so mature at that time period. On the other hand, Alipay, Taobao’s payment system followed another path in payments. The buyer credited the sellers account with the proportional amount of money. The seller verified the payment but was not able to overdraw the money until the buyer has received and checked the product and release the payment. This system was thought to be more appropriate to the Chinese market.

Furthermore, after the acquisition of Eachnet, the staff operating in China did not comprise of people with in depth knowledge of the market. Employees belonged to a middle or upper class and were similar to the people that they wanted to focus on. They are characterized as people that have experience in mature markets that are running under the laws of market. But that does not exist in China. They did not have a true, representative picture of the market and the country in which the company had to operate. In addition, former employees of Eachnet have complained about the arrogance of their colleagues in the headquarters. The lack of communication between the colleagues is mostly reflected by the fact that Meg Whitman was not aware of what was happening at that particular time and she had to travel to China in order to be informed and learn the truth. Furthermore, decision making at eBay Eachnet became centralized, even for not so important matters and the headquarters had not given to its Chinese subsidiary enough autonomy and had directed them from a long distance instead. The fact that the main server of Eachnet was moved from China to California is another indicator of a sequence of wrong strategies that the company followed. This action deteriorated the already slow internet connection and caused much dissatisfaction among eBay Eachnet’s customers. Finally, eBay, as it will be shown in the next part, did not change its strategy in order to adapt to the Chinese market. It sounds a little bit strange for a company with such a strong marketing orientation and resources to provide a service totally inappropriate for the market that wanted to operate in.
The Joint venture: TOM Eachnet

Before moving to the analysis of the new joint venture, it is most appropriate to cite some features about TOM Online.

TOM Online Inc. was a leading wireless internet company in China providing value-added multimedia products and services, targeting a younger market. The company’s primary business activities include wireless internet services and online advertising. The company offered an array of products such as SMS, MMS, WAP wireless interactive voice response services, content channels, search and classified information, free and fee based advanced email and online games. As of September 30, 2006 TOM Online was the only portal in China that enjoyed a top three ranking in every wireless internet service segment.

Watching its market share declining over time and after rumors that followed that eBay would close its auction site in China, the company moved to another strategic alliance with another local online business. In December 2006, after four years of operating in China, eBay Inc and online portal and wireless internet company TOM Online announced a joint venture agreement that was thought to set the foundation for the next phase of growth of e-commerce and m-commerce in the rapidly growing Chinese market. EBay will have a 49% stake in the joint venture and TOM Online will have a 51% stake. Both companies will make financial contributions to the venture, including a US $ 40 million cash contribution from eBay and US$ 20 million from TOM Online. It was agreed that eBay would contribute its Eachnet subsidiary while TOM online would contribute local management expertise, technology and brand. The new brand was named TOM Eachnet, something that indicated that ebay.com.cn would be retained for international transactions only and that the company decided to step down from the front line in Chinese online market.

This strategic alliance was heavily criticized by the press. Due to the CEO on TOM Online, Wang Lei Lei, a multimillionaire that was the grandson of a Chinese general and due to the fact that other main people that joined the board of TOM Online, press heavily accused eBay that took advantage of the political connections that TOM Online might have had. On the other hand, this action was thought to be a
change in eBay’s strategy. The new brand supported by eBay, was thought to gain more recognition and market share and provide domestic Chinese brands.

**Did TOM Eachnet help eBay to regain its market share in the Chinese market?**

Although TOM Eachnet thought to help eBay in regaining the Chinese online market, facts proved the opposite. According to a research conducted by iResearch, after two years of operation, in the first quarter of 2008, Taobao still proved to be the leader of the online market. In the Chinese C2C, the major leading brands were Taobao, TOM Eachnet and PaiPai. According to the same study Taobao held an impressive 83.8% market share in this sector in the first quarter of 2008, followed by PaiPai and TOM Eachnet with 9% and 7.2% respectively. At present, all three websites are quite similar as they only differ in some details, and all three portals provide their services free of charge.

**Exhibit 2**

![China Main C2C Operators' Market Share (2008Q1)](image)

Based on the same survey, China’s online shoppers seem to be very loyal. 60% of the online shoppers only use one website for their online shopping, while only 33% surf two. With 67.3 % of its users only shopping on its website, Taobao has the most loyal
user base in China. Taobao has cultivated a large number of online shoppers in China. Many users experience online shopping first with Taobao and then shift their attention to other online shopping sites.

Taobao, TOM Eachnet, Dangdang, Amazon and PaiPai are the five most widely known shopping websites among internet users in China. When online shoppers are asked which shopping website comes to their mind first 70% answer Taobao, 8.4% say Dangdang and 7.9 % say TOM Eachnet. According to the survey, 20% of online shoppers only know one shopping website. Among those 20%, 80% only know Taobao.

According to the same survey, Taobao is the leading portal in terms of brand awareness and brand conversion; however, regarding brand reliability Taobao only ranks third among the five major shopping websites. Nevertheless, it ranks higher than its competitors in the consumer-to-consumer market, namely PaiPai and TOM Eachnet.

Based on the results of the same survey mentioned above, TOM Eachnet is among the first shopping websites in China and therefore enjoys 41.9% brand awareness among online shoppers, the second highest. However, due to the failure in recent years, the conversion rate (the percentage of shoppers who are familiar with the website and are actually making a purchase) is relatively low, reaching only 20.1%.

Tom Online decided to completely rebuild the acquired Eachnet platform. In order to catch up with market leader Taobao, Eachnet has stopped charging any fees since the beginning of May 2008. Taobao and PaiPai have been providing free services since they have been founded. Taobao, by the way, announced that it would start charging its users after its first three years of operation - that means it would be a paid service from 2009. PaiPai, an online marketplace since 2006, has also announced that its service will be free for at least three years.
4. B. Discussion

The difficulties that eBay faced in China and the attempts that the company made in order to regain its market share in the online market lead to numerous implications to be discussed. Taking into consideration the main research questions posed, this part will focus on the results regarding the global strategic management and international alliances theory. The findings that will be discussed in this part of the study refer to the localization as a barrier in developing a global strategy and the ways that companies use the alliances and the role that international strategic alliances play in retaining or losing market share. As far as the managerial part is concerned, findings refer to the design and implementation of a global strategic approach design as well as the way in which managers can handle international strategic alliances.

Theoretical Implications

As it was mentioned in the literature review, while defining the term global strategic management there are three dimensions that define the global strategic management: standardization, integration, configuration and coordination. During the study of eBay case it will be easily drawn that all of these three dimensions were held during this strategic movement. As such, eBay’s strategy can be at first sight characterized as global. Moving deeper, it can be also concluded that these three dimensions were the main reasons of failure for the company in the Chinese online market. The company provided a standardized, not localized product, the subsidiary had none or limited involvement in decision making and in strategic design and subsidiaries had not the interdependence to plan and execute competitive moves interdependently. Thus, competitive movements are based exclusively on a global scale (Mellahi, Frynas and Finlay, 2005). The main issue that now arises is that maybe the company should pursue an international instead of a global strategy with respect to the distinctiveness of the specific market. Although, as it was mentioned above, the company changed its strategy after Taobao had appeared, and as such the question still remains: what if the company had pursued an international strategy in the Chinese market. But according to Mellahi, Frynas and Finlay (2005), eBay can of course be characterized as a global company, since it fulfills the conditions mentioned above. To conclude with, it can be assumed that it is very difficult, when it comes to practice, to disassociate between
international and global strategic management. Not all the strategic movements across borders should be characterized as international or global movements.

Moving on to international strategic alliances, we can conclude that eBay has formed co-specializations with the two companies (Eachnet and TaoBao). According to the theoretical background, co-specializations are alliances of firms that join their respective unique but complementary capabilities to create a business or develop new products or technology. What characterizes this type of alliance is that each partner contributes to unique assets, resources and competencies. Combined together, the capabilities of partners create the required capabilities for business development. In eBay’s case, Eachnet provided eBay the necessary tools in order to establish “eBay China”. On the other hand, TaoBao apart from the technology Know-How, as it was mentioned in the data, provided the company with the essential political connections needed in order to survive in the specific market. This movement of eBay was severely criticized by the press. In addition, eBay case comes in accordance with the drivers for forming international strategic alliances mentioned in the literature review. EBay uses the alliances for its growth and to penetrate into new markets. This practice seems to be a very common to the company and one of the most important drivers that eBay used in order to enter not only the Chinese market, but also to other markets as well. In most of its marketplaces, the company is not operated as itself but by forming alliances with local online companies. On the other hand, Eachnet used the strategic alliance in order to gain and sustain its competitive advantage. By creating strategic alliances with other companies, small firms can participate into biggest projects faster and more profitable than they could do only by themselves. Through alliances companies can obtain the required resources and capabilities to successfully compete on the global market and presently very few companies base only on their own forces.

To conclude with, analysis of the reasons for which alliances may fail was conducted. Among other reasons, lies the lack of coordination between the management teams. This reason is thought to be one of the main factors that resulted in eBay’s failure in China. Measures taken partially that do not correspond to the requirements of both management teams may lead to problems, especially if, for example, companies are still competitors despite their alliance. If a company takes a series of strategic
measures and enters a market solely based on them, when it has a strategic alliance with another company, it is very possible for that alliance to break up and for the two companies to get to court for a fight that might take years to be ended. But in this case there is no obvious failure of the alliances, since the particular one exists until nowadays.

Looking throughout the main conclusions, it can be said that this study has been conducted in accordance to the theory of Mellahi, Frynas and Finlay (2005). In addition, the reasons of eBay’s failure in China fall into the reasons presented by Catalina Radu (2010). However, this study makes an advance to the area of strategic global expansion. Moreover, this study tries to fill the literature gap regarding the difficulties in applying a global strategy and to provoke thoughts about which type of companies can be defined as global companies. Multinational or international companies should be diversified from global companies and to have distinct definitions in researchers’ minds.

**Managerial Implications**

At the managerial level, an important point is the appropriate implementation of the strategy. It can be assumed that the strategy was not so well designed in order to contain all the parts of the implementation and specifically the responsibilities and the rights of the employees in both strategic partners. Another point of discussion is the name of eBay Eachnet. The particular market, as it has repeatedly been mentioned, has invested a lot in creating trust and customers in China have shown an open preference to Chinese companies. As a matter of fact, eBay used its own name first when the alliance was formed (i.e. eBay Eachnet). This movement of eBay, to place its own brand name first, deteriorated the picture that customers had for Eachnet. It would be more appropriate to state firstly the Eachnet name as it was more recognized by the customers. This is a common mistake of companies trying to expand globally and a major problem posed in the literature of international alliances.

Globalization and the competitive environment that the businesses operate within and, in particular, the online businesses, which do not possess big capital investments, push to quick decisions. Time is an enemy not a partner when it comes to serious
strategic decisions. The winner in a competitive market will be the company that reacted faster. EBay case study also reinforces the belief that companies should globalize in order to thrive as other markets may provide more opportunities.
Chapter 5: Conclusions, Limitations and Future Research Directions

The results of this study were almost expected, concerning the differences that exist in implicating a global and international strategy. In this way, the current study provided an attempt to address this void in literature referring to the difference between global and international strategies. But what was not expected to be found, although there were some references in the literature, was that big companies are so heavily oriented to and strategy driven that sometimes they fail to adjust their strategy in the needs of a specific market. In addition, quite surprisingly, the strength and the eccentricity of the Chinese online market were identified. Nevertheless the main question that still needs to be answered is which type of strategies to choose when a company decides to expand outside borders.

In addition, in a broader perspective, the conclusions regarding to the appropriate implementation of strategy and mistakes that companies may fall in could be a useful guide for managers and entrepreneurs who plan to expand globally.

It is evident that the current study cannot be characterized as completely objective. The limited access to original data and the lack of primary data generates several limitations for the research, since it is primarily based on the use of secondary data, as has been mentioned and analyzed in the methodology part. However, a big effort was made in attempting to maintain the reliability and validity of the research and the data used. Furthermore, the findings cannot be generalized as they refer to a single case and according to the theory cannot be generalized.

Moreover, time limit played an important role, since the whole research was conducted within a two month period. In addition, obtaining a quantitative way to seek insight into the topic and combining with the findings of the qualitative approach would further reinforce the reliability of the current results. Finally, the current study considered the example of a simple case, one particular firm, and its expansion efforts within a particular context, the Chinese. Future studies can focus on other contexts and the examples of other firms and industries as well.

Because of these limitations, further research and investigation is needed in the field of global strategic management as opposed to international strategic management. As
we live in a globalised world, we should further examine where this globalization will lead markets worldwide in the future.

Summarizing the data and the findings of the current study, it can be said that most of the research questions were successfully answered. At the theoretical level the differentiation between international and global strategic management was pointed out. The differences between these two terms were the main point of this research. Moreover, international strategic alliances and the implications to the managerial level were also a part of this study concerning the right implementation of strategy and the managerial mistakes that were mentioned in the previous chapter.
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Appendix 1
a. Porter’s five forces model for the Chinese online market.
Appendix 2

b. EBaY Marketplace’s Global Net Revenues

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Revenues</th>
<th>Annual Growth Rates (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>1.7 billion</td>
<td>-</td>
</tr>
<tr>
<td>2004</td>
<td>2.6 billion</td>
<td>52.9</td>
</tr>
<tr>
<td>2005</td>
<td>3.5 billion</td>
<td>34.6</td>
</tr>
<tr>
<td>2006</td>
<td>4.3 billion</td>
<td>22.9</td>
</tr>
<tr>
<td>2007</td>
<td>7.7 billion</td>
<td>59.3</td>
</tr>
<tr>
<td>2008</td>
<td>8.5 billion</td>
<td>11.2</td>
</tr>
<tr>
<td>2009</td>
<td>8.7 billion</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Source: eBay (2003-2009) Annual Reports