

# London Business School

## Dynamics of Strategy

### Group Assignment

#### eBay

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TEACHER'S NOTE – This paper is provided for guidance of students taking the LBS Electives in Strategy Dynamics. It is an example of a Strategy Dynamics study carried out by a small group on a strategic issue facing a real organisation. Critical to this assignment are (a) the explicit use of the strategy dynamics frameworks for analysing the firm's architecture, and (b) the *explicit* representation, with time-charts, of data relating to the case.

The paper is reproduced with the kind permission of the authors. Although a good example of this assignment, the paper is not guaranteed to be error-free, or to encompass all the potential analysis. Note that it was carried out entirely on the basis of information obtained from outside the organisation.

Kim Warren

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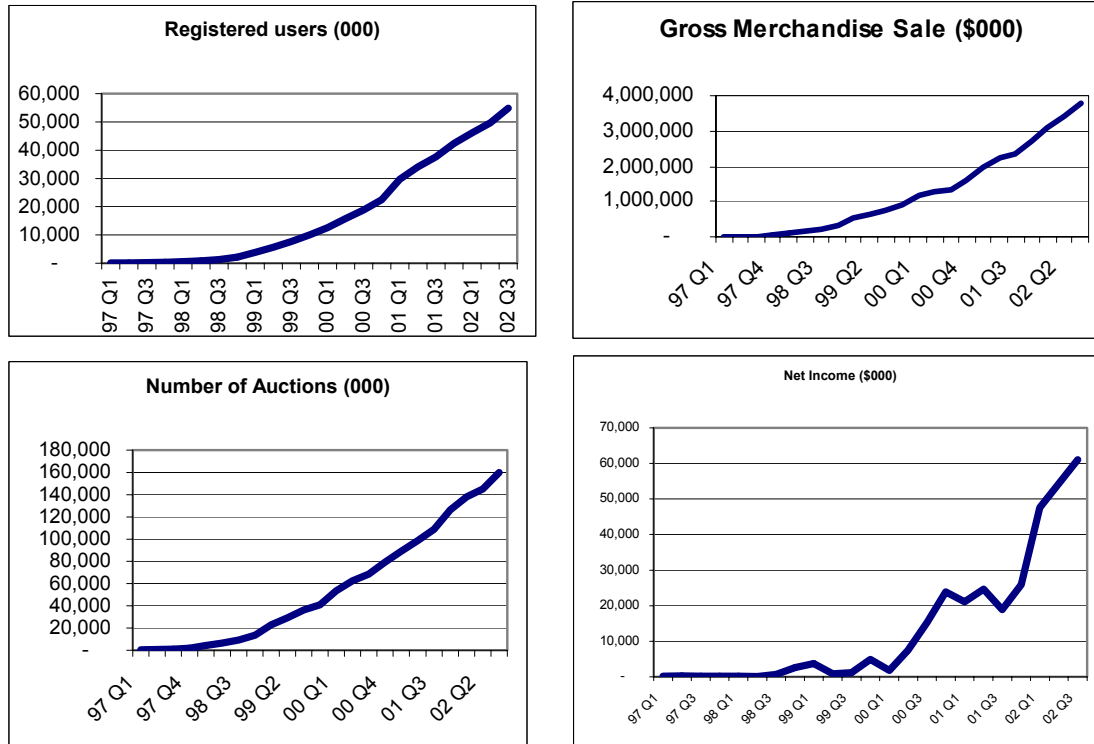
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## Key strategic issue facing eBay

In the four years since its IPO (September 1998), eBay has become the dominant player in the online auction industry. It is by far the largest player in the online auction market in terms of gross merchandise sales (GMS), number of registered users, and items for sale.



It is estimated that over 500 million individuals had access to the Internet at the end of 2001<sup>1</sup>. This can therefore be considered the maximum potential market resource that eBay has to exploit. This resource is of course growing itself and we could consider that the potential future market to be that proportion of the world population connected to the web.

By July 2002 the number of registered users on eBay was just over 47million, representing nearly 10% of the Internet population. At this time it had 27 separate geographical points of presence (POP).

Perhaps the most significant feature of eBay's exponential growth has been its profitability; eBay has generated twenty consecutive quarters of positive earnings. The key question facing eBay therefore is determining how (and whether) this earnings growth can be sustained?

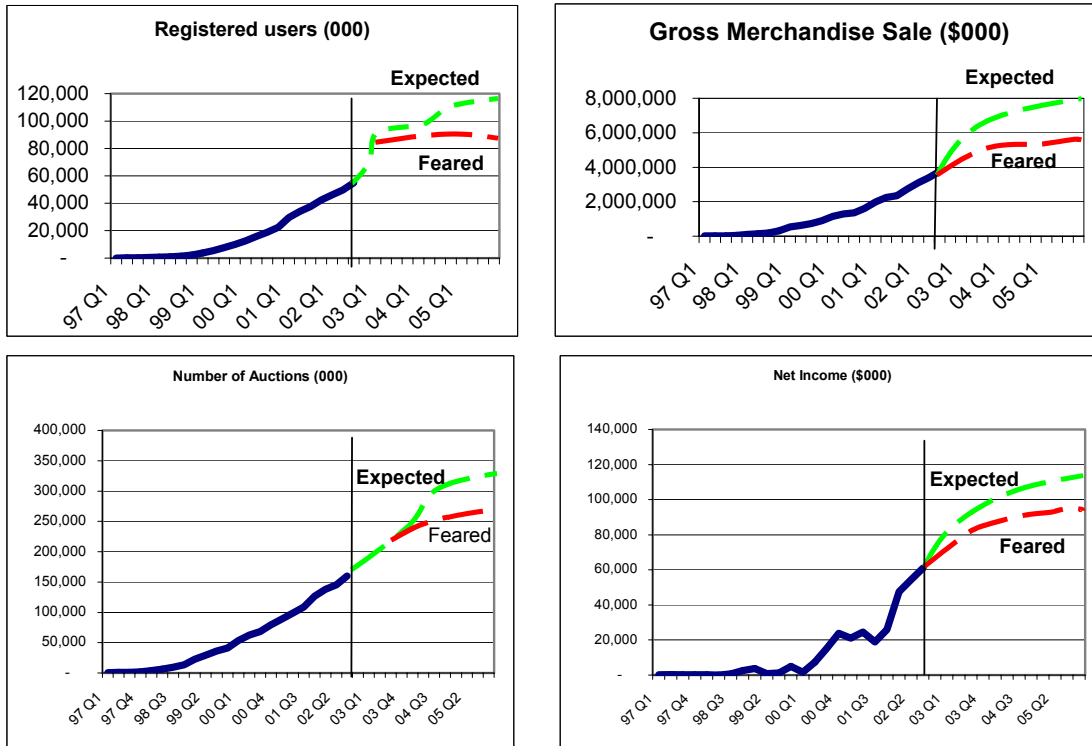
The four charts above show that the number of auctions have been increasing as a result of the increase in users. This is eBay's key revenue generating engine, as users pay a listings fee for items to be auctioned and a commission on the final auction price. Again, this is evident by the increases we see in gross merchandise sales. Finally the net income graph shows how the revenue being earned is being turned into income. This graph highlights that between Q4 2000 and Q3 2001, the net income of the company did not grow in line with the increase in the other key variables (users and auctions). This is because during this period the company invested significant amounts in infrastructure and personnel.

The question that exists for the company is how long can it continue to grow its users and listings and therefore what is the limit to the phenomenal growth that we have seen in Net

<sup>1</sup> Nua Internet Survey, November 2001

Income. The graphs below (same as above) show what we see as the expected and feared time path of the key resources in eBay’s model.

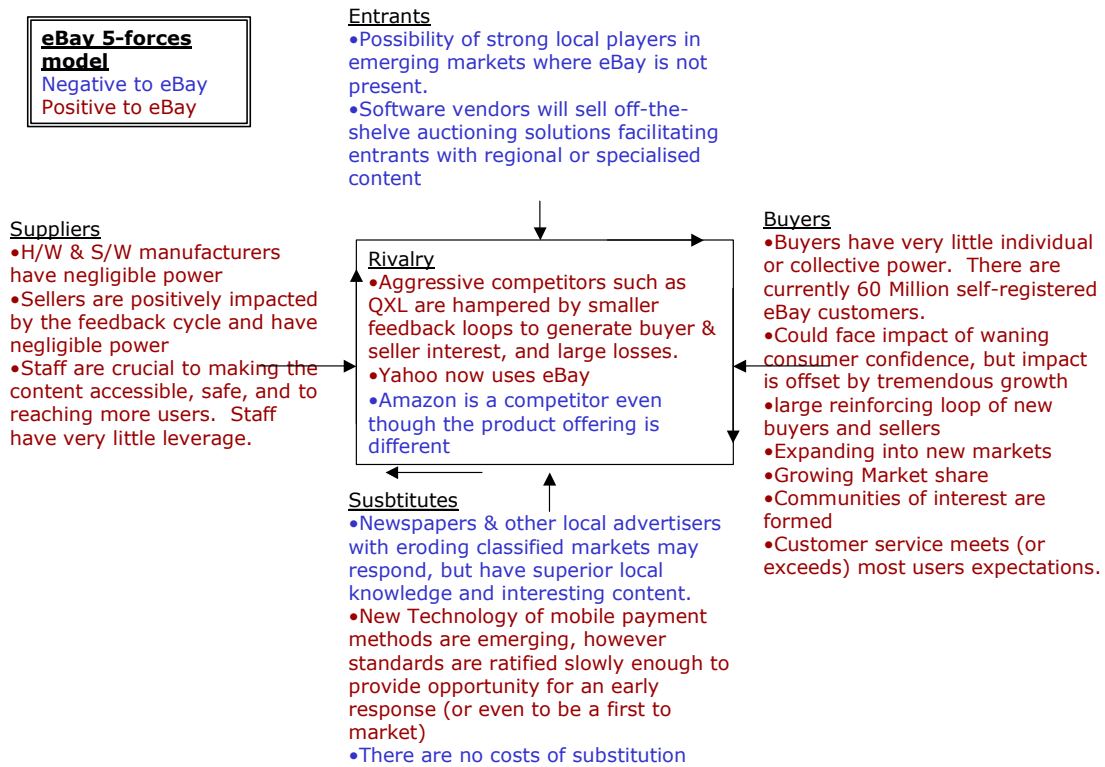
Management at eBay also need to be aware of the expectations of the stock market and manage these given resource constraints. The company currently has a price earnings ratio of 106, any inability by the company not to sustain the current growth rates in earnings will cause a huge reduction in the share price – management need to manage market expectations before they are unable to deliver the growth required.



The following discussion analyses that key resources (and architecture) that the company has developed that has allowed it to deliver the results that it has to-date and what the likely results are going to be in the future depending on how it acquires and maintains resource along with the quality of those resources.

**1.1 A Brief Industry Overview – A Traditional Strategy View**

**eBay 5-forces model**  
 Negative to eBay  
 Positive to eBay



**2 Resource Dynamics**

In order to understand eBay’s engine for growth we need to understand its key resources and how these can be gained and lost over time. The table below lists the eBay’s key tangible and intangible resources, followed by a description of the development of the resource.

| Resource          | Description                    | Metric  |
|-------------------|--------------------------------|---|
| <b>Tangible</b>   | Users                          | Number (thousands)                                      |
|                   | Listings                       | Number (thousands)                                      |
|                   | Staff                          | Number (thousands)                                      |
|                   | Products & Services            | Number (units)  |
|                   | Capacity                       | Systems availability (fraction of 100%)                 |
|                   | Points of Presence             | Number of geographic regions with local presence        |
| <b>Intangible</b> | Product Development Capability | Fraction of customer requirements satisfied (0-1 scale) |
| <b>Indirect</b>   | Reputation                     | 0-1 scale   |

## 2.1 Users

| <b>Stock</b>                    | <b>Metric</b>   | <b>Flows In/Out</b>  | <b>Variables affecting flows</b>  |
|---------------------------------|---|--|---|
| Potential new and unaware users | Number of individuals having internet access but currently unaware of eBay.                           | Inflow is the number of people gaining access to the Internet for the first time.<br><br>Outflow is the number of people per quarter becoming aware of eBay. | <b>Inflow:</b><br>Macroeconomic factors, price of Internet access, and other factors beyond the scope of this analysis.<br><b>Outflow:</b><br>Marketing, word-of-mouth. |
| Aware potential users           | Number of individuals having internet access that are currently aware of eBay but not yet registered. | Outflow is the number of new registered buyers per quarter.  | <b>Outflow:</b><br>Marketing, word-of-mouth, need to sell or buy.   |
| Registered inactive users       | Number of individuals who have registered on eBay.  | Inflow from above outflow plus outflow of below stock.<br><br>Outflow is the number of new registered active users per quarter.                              | <b>Inflow:</b><br>No need to transact and Quality of service.   |
| Registered Active users         | Number of individuals who have registered at eBay and who use the eBay on a regular basis.            | Inflow from above outflow<br><br>Outflow is the number of disloyal users per quarter   | <b>Inflow / Outflow:</b><br>Need to sell or buy and quality of service.   |

In the context of eBay, users are composed of two groups: buyers and sellers. Sellers generate the near-totality of eBay's revenues through fees paid to list items as well as commissions paid on items sold. Marketing and word-of-mouth will influence the flows between asset stocks for both groups, however, there are specific policy levers eBay can use to influence the groups directly:

**Sellers:** The level at which eBay sets listing fees and commissions paid will influence the rate at which sellers are brought into the "system", the amount and kind of merchandise they list for sale, as well as the minimum price they will accept for goods to be sold (the reserve price).

**Buyers:** Buyers are attracted to the system primarily by perceived value for money and or the availability of hard to find items.

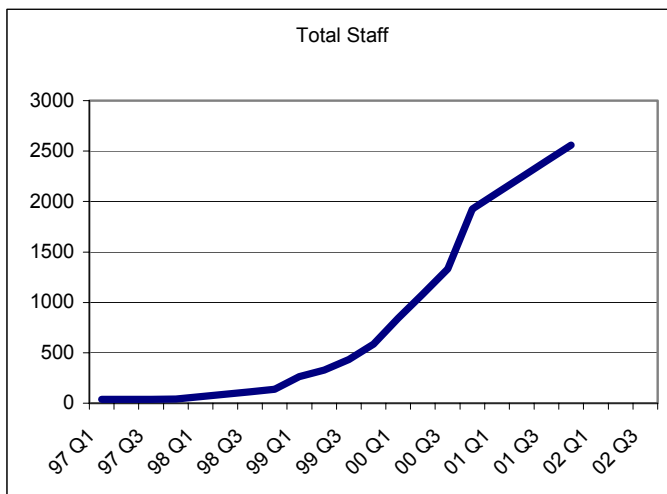
Both groups will be concerned with the ability to transact i.e. are there sufficient registered active users that will ensure the auctions clear products listed. This is not so much an issue once a certain critical mass has been achieved, but is clearly a necessity when eBay enters new geographical regions where it is not able to leverage its user stock in other regions. Both groups are also very concerned about trust and safety, this is discussed in detail in the reputation section.

## 2.2 Listings

| Stock    | Metric                            | Flows In/Out   | Variables affecting flows   |
|----------|-----------------------------------|--|---|
| Listings | Number of items listed for sales. | Inflow: Number of new items listed.<br><br>Outflow: Number of items sold or left unsold at end of auction period | <b>Inflow:</b><br>Number of new sellers (bring new listings with them);<br>Quality of service, price achieved, items to sell (for existing sellers) and cost to sale.<br><b>Outflow:</b><br>Perceived Value For Money and reserve price |

## 2.3 Staff

| Stock   | Metric                          | Flows In/Out   | Variables affecting flows   |
|---|---------------------------------|--|---|
| Staff – 4 areas (Product Development, Customer Service, Administration and Management). | Number of individuals employed. | Inflow: Staff hired per quarter<br><br>Outflow: Staff fired and leaving per quarter. | <b>Inflow:</b><br>Growth and reputation<br><b>Outflow:</b><br>Job Market opportunities. |



Although we would like to discuss this in more detail, the data is not publicly available. We do know that there has been a significant increase in staff levels as shown in the graph below – this graph does not let us see the inflows and outflow of staff so we can not see if experience is increasing or decreasing. However, from our readings and general assessment of the company we would expect that there would be a reasonably low outflow – it is rare to work for a successful dot-com.

## 2.4 Products & Services

| Stock               | Metric                           | Flows In/Out  | Variables affecting flows  |
|---------------------|----------------------------------|---|--|
| Products & Services | Number of products and services. | Inflow: Ideas flowing out of development as new products.<br><br>Outflow: Products and services discontinued. | <b>Inflow:</b><br>Product Development Capability.<br><br><b>Outflow:</b><br>Insufficient Customer take-up. |

Products & services include not only enhancements to the website functionality (searching, bidding, etc.), but also value-added services such as the PayPal person-to-person payment processing service and the launching of standalone vertical marketplaces such as eBay Motors. Data on the timing of flows in and out of this resource are not available; estimates based on current products and services will be used to illustrate the growth of this resource over time.

## 2.5 Capacity

| Stock    | Metric   | Flows In/Out  | Variables affecting flows   |
|----------|--|---|---|
| Capacity | Amount of bandwidth, data storage capacity, and processing capacity added per quarter (i.e. one aggregate unit of capacity). | Addition of capacity (accumulating stock – no outflow). | <b>Inflow:</b><br>Fraction of requests served successfully (in relation to target); number of transactions per quarter. |

Since its launch in 1995, eBay has had to cope with exponential growth in the number of visitors to its site<sup>2</sup>, the number of items listed for sale, and the number of transactions completed. As the sheer volume of data under management increased so did the complexity of the tasks its technical infrastructure was obliged to support: a single sales transaction could be distributed over several databases under eBay's direct control as well as third-party systems supplying authentication and payment processing services. From 1997, eBay outsourced the management and provision of the core components of their technical capacity, namely bandwidth provision, website hosting, and data centre hosting, while owning the actual servers operated in these hosting centres. Service interruptions have occurred, with severe consequences: several software upgrades gone awry in 1999 led to 57 hours of downtime, forcing a rebate of over \$5m for auctions held during those periods, knocking 20% of the company's share price, and diverting a significant number of customers to competitors' sites.<sup>3</sup>

Being a "pure play" Internet company, technical capacity is vital to the survival of the business: having sufficient capacity to serve web pages, store listings, user details and process sales transactions plays a major role in attracting new customers and retaining existing ones. The eBay technical capacity asset stock is made up of several components: bandwidth, storage capacity, and processing capacity. These components are managed separately by eBay, however the data are not available to determine the rate at which eBay adds to these stocks. We have chosen therefore "system availability" as a proxy for capacity, as it reflects the fraction of customer requests that are served successfully, the ultimate goal of capacity planning.

<sup>2</sup> As of May 2000, eBay served 120/130m page views per day; by July 2002, this had increased to 325m.

<sup>3</sup> *Ebay Retrenches*, Internet Week, 21 June 1999

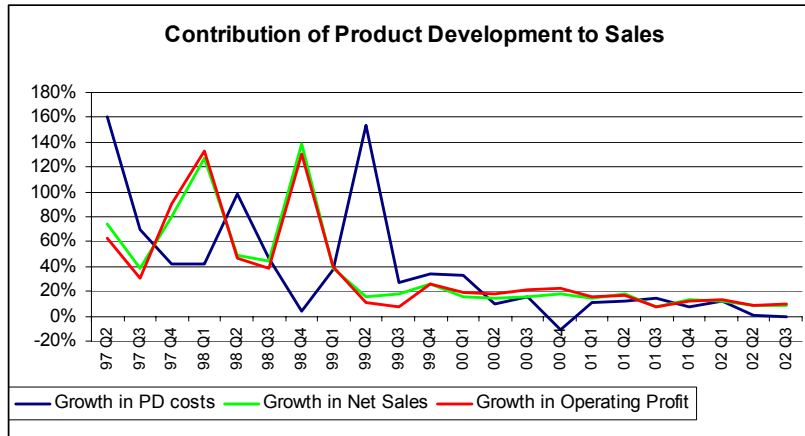
## 2.6 Points of Presence

| <b>Stock</b>       | <b>Metric</b>                          | <b>Flows In/Out</b>  | <b>Variables affecting flows</b>  |
|--------------------|--|--|---|
| Points of Presence | Number of separate geographical sites. | Inflow: New sites added.<br><br>Outflow: Sites discontinued. | <b>Inflow:</b><br>Number of users in countries with Internet access not aware of eBay.<br><b>Outflow:</b><br>Users, listings, and net income below targets. |

Points of presence (POP) is a tangible resource within the eBay. POP is comprised of localised trading communities (which includes US regions and international sites). eBay determined in late 1998 that geographical proximity of buyers and sellers was an important factor in building trust between anonymous parties. It had the added benefit of reducing logistics costs for sellers. They decided to “scale” this model internationally starting in 1999 with eBay.co.uk and steadily increasing local POPs around the world, reaching 20 international sites by late 2002.

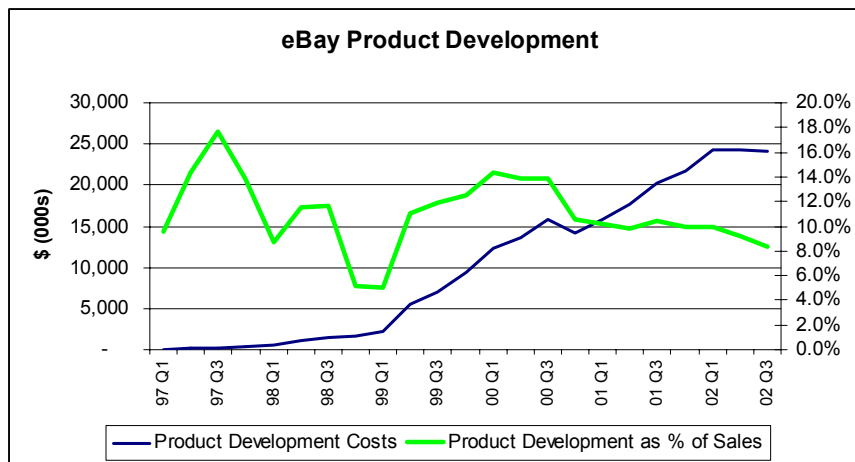
## 2.7 Product Development Capability

| <b>Stock</b>                            | <b>Metric</b>                                   | <b>Flows In/Out</b>  | <b>Variables affecting flows</b>  |
|---|---|--|---|
| Development staff                       | Number of People                                | Hiring, Firing & attrition.  | Company reputation,<br>Ideas under development<br>Competition for staff.  |
| Development staff skill level           | Aggregate years of experience                   | Average experience per new hire.<br>Loss of knowledge (due to lack of procedures).         | Hiring rate (a co-flow that determines the rate at which skills are acquired).<br>Training days per staff (adds skill to new staff and maintains skills of existing staff). |
| Procedures + Contribution to capability | No. of procedures<br>Contribution to capability | Procedures added<br>Procedures dropped<br>Addition to contribution<br>Loss of contribution | Average contribution of new procedure to capability.<br>Improvement of existing procedure.  |
| Ideas under development                 | No. of ideas                                    | New ideas<br>Ideas dropped/ideas developed   | Competitors’ offerings (fraction of products and services offered by competitors and not offered by eBay).  |
| Products and services available         | No. of products & services                      | New products launched<br>New products discontinued   | Development staff<br>Accumulated skill  |
| Patents & trademarks                    | Number of patents & trademarks                  | New patents & trademarks<br>Patents and trademarks expiring                                | New products launched   |



Product development capability (PDC) has enabled eBay to distance itself from its competition. In the context of eBay, the “products” developed include not only enhancements to the core site functionality (searching, registering, listing, bidding), but also the addition of ancillary services such as payment authorisation and processing, seller evaluation and accreditation, as well as

the extension of the eBay engine into new markets such as real estate, autos, and B2B equipment sales. Product development at eBay is a multidisciplinary process that involves several internal and external resources: technical skills required to build and deploy innovative software services are utilised by a new product development process that relies heavily on existing customer input to generate and validate ideas for new services, as well as internal business development skills in identifying viable extensions of the eBay brand and operational capabilities.



The graph by the side shows that eBay has invested heavily in its product development and it appears that it has achieved critical mass in this given the stabilisation in spend (this is difficult to say for certain as we only have 3 quarters of information).

### 2.8 eBay’s Reputation

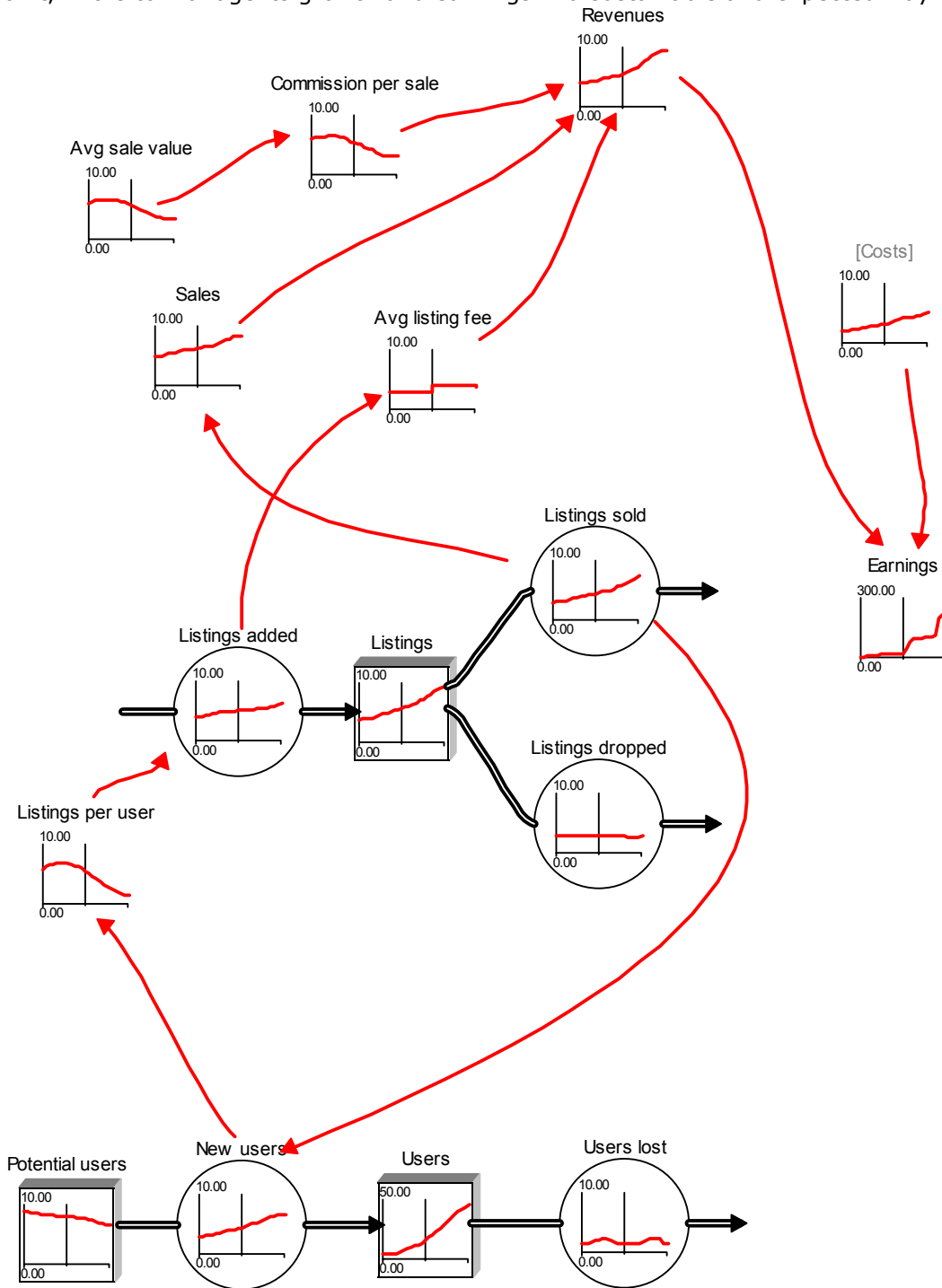
| Stock      | Metric  | Flows In/Out  | Variables affecting flows  |
|------------|---|---|--|
| Reputation | 0-1 scale, with 0 representing no reputation and 1 being perfect reputation | Inflow: Reputation points gained per quarter.<br><br>Outflow: Reputation points lost per quarter. | Downtime, Number of complaints (incidents of fraud), Site functionality and features, Customer service quality and safety. |

EBay’s reputation is a key intangible resource without which EBay would not be able to maintain the successful business that it has created to-date. In fact reputation is so central to the EBay business model that any significant reduction in it would cause a large outflows and/or reductions in inflows in a number of “tanks” in the resource system.

The view we have taken of what exactly is reputation covers a myriad of facets, from availability to trust.

### 3 eBay’s Resource Architecture

The top level strategic architecture of eBay below focuses on the key dynamics of revenue generation (which we see as being the key determinant of earnings). The company must be aware of it, if it is to manage its growth and earnings in a sustainable and expected way.

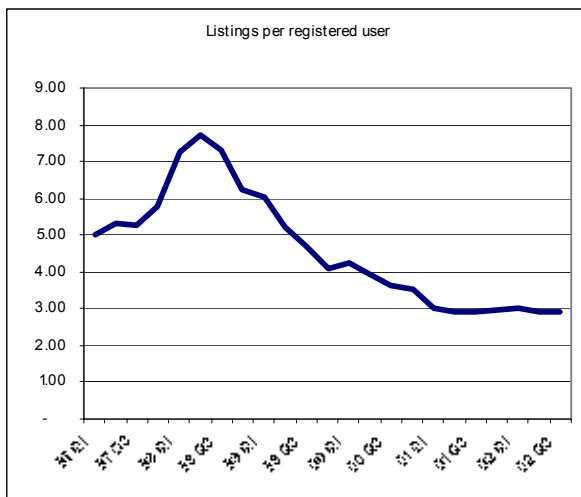


**TEACHERS NOTE** – For an audience new to the Strategy Dynamics approach, the diagram above would be built up piece-by-piece, starting from the earnings chart. Each element would be explained in isolation (e.g. the 'Users' and 'Listings' sections) before presenting the connected picture. Similar considerations apply to later diagrams.

### **Users, Listings and Points of Presence**

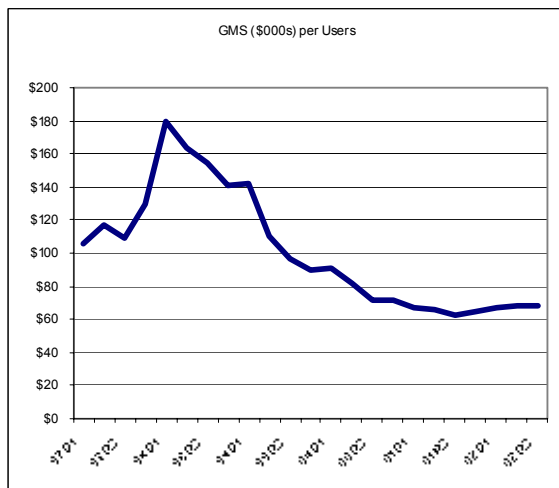
On the listing front it is clear that there is a relationship between numbers of users and the number of listings. There is a reinforcing feedback loop related to the listings. More and better listings would affect the in and outflows of the customer stocks/chain and therefore also the accumulated level of active buyers over time. The accumulated active/loyal buyer stocks affect also the in and outflows of the sellers stocks chain and therefore also the accumulated level of active/loyal sellers over time. The reinforcing feedback loop is an important element explaining the e Bay's growth and why it is possible also to achieve a new equilibrium from future growth paths.

It is possible to see from tracing the average listings per user over time (see graph below) that as the user stock has been increasing, the quality of users being added has decreased vis-à-vis the number of items put up for auction.



What could have happened is that the new users being added to the pool are either putting up fewer items for auction and/or the users being added are not interested in selling but only buying.

This along with the average value achieved by auctions will have a significant impact on eBay's ability to continue to grow revenues and ultimately Net Income. It is therefore somewhat worrying that Listing per user has appeared to settle at approximately 2 per quarter and also that the value auctioned per user has also fallen to just over \$60 per quarter (see graph below).



Given the importance attached to the Listings and User resources in the eBay business model it is fundamental that the company understand how this dynamic is playing out. It appears that the users being added more recently are of lower quality in terms of listings and value of listing, in line with the theory that the best and most interested users are acquired earlier. If this is the case then the growth rates achieved by eBay are unlikely to be sustained going forward.

Our research shows that the company is aware of these factors, and is attempting to access resources in new markets/regions. This can be seen in the way the business has expanded geographically from the US and

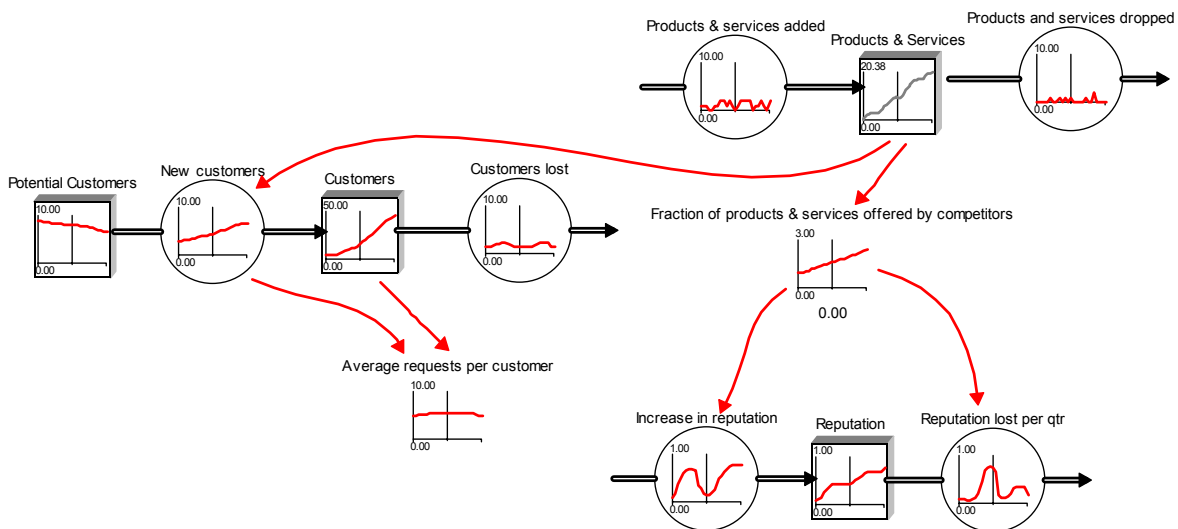
North America to the UK and Mainland Europe and through to Asia. This expansion serves to increase the user base for the company by exploiting untapped resources (provided that someone else has not already set up a web-enabled auction site that provides a similar proposition to eBay's).

However, as the number of POPs grows more customers are brought into the system, increasing the demands on technical capacity. If technical capacity is not able to grow to meet the new level of customer requests, site availability will fall below target, thus invoking the balancing feedback loop (see technical capacity discussion). Overseas expansion also places additional demands on the product development capability to adapt existing, and develop new products and services to align with local and cultural norms, as well as overcoming key language-based localisation issues. However, expansion of POPs also increases the attractiveness of the eBay system sellers as the increasing reach of the system in turn increases the number of potential buyers (this maybe more important as eBay enters smaller regions such as those that exist in mainland Europe).

**Products, Services and Product Development Capabilities**

As eBay grew in its earlier period (pre 2000) the company developed new product and service offerings for its users. These not only added to the quality of service being offered to the existing customers, but also served to increase the company’s reputation thereby helping to increase the number of users. However, by 2000 the number of innovations and the increase products and services began to have a decreasing impact in their ability to attract new users. This whilst not wholly clear from the user acquisitions figures due to other dynamics, seems a reasonable conclusion e.g. the company had moved from 10 product categories in 1997 to 3000 by the end of 1999 (this had increased to 18000 by the end of 2001) –no doubt there were marginal returns to increasing the number of product categories. Also the addition of new business segments such as eBay Motors, which clearly attempts to increase the ticket value of items auctioned, has had limited success.

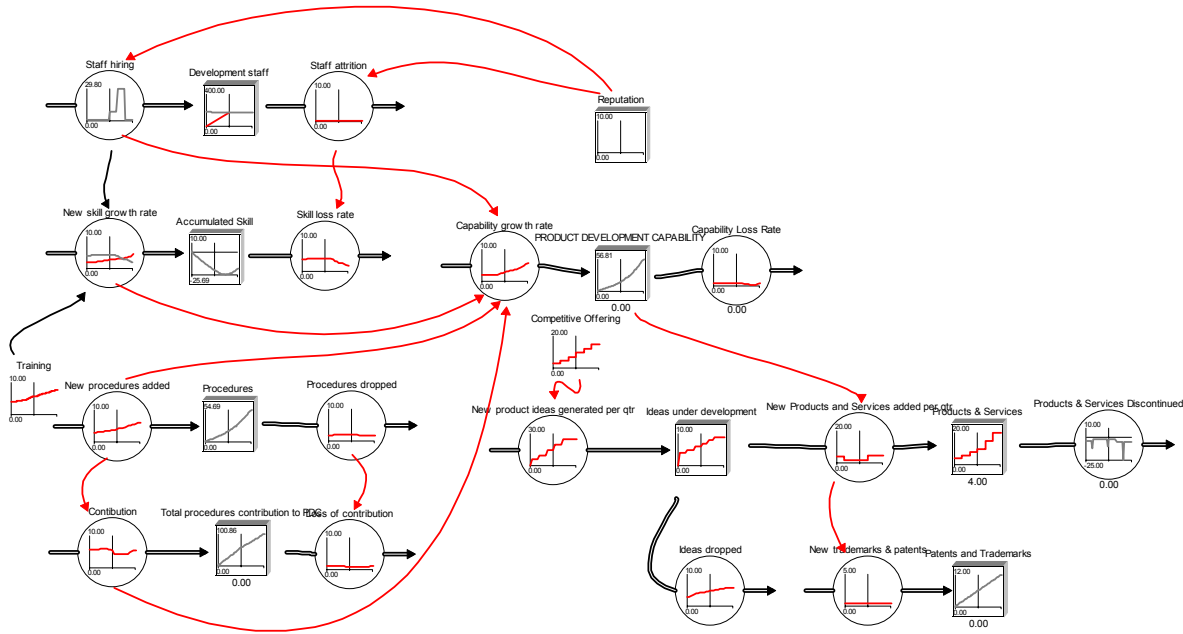
The capability to develop the desirable and innovative products and services has a direct impact on the company’s reputation vis-à-vis its competitors. Reputation in turn affects eBay’s ability to attract and retain skilled staff. The key driver in capability growth is the ability to retain skill and experience within the product development function. Although data are not available on the degree to which eBay has been successful in retaining these attributes, if year-on-year revenue growth is compared to the growth in product development costs, from 2000 onwards, increase in revenue and operating profits has exceeded growth in product development costs, indicating some degree of increasing marginal returns.



**Product Development Capabilities**

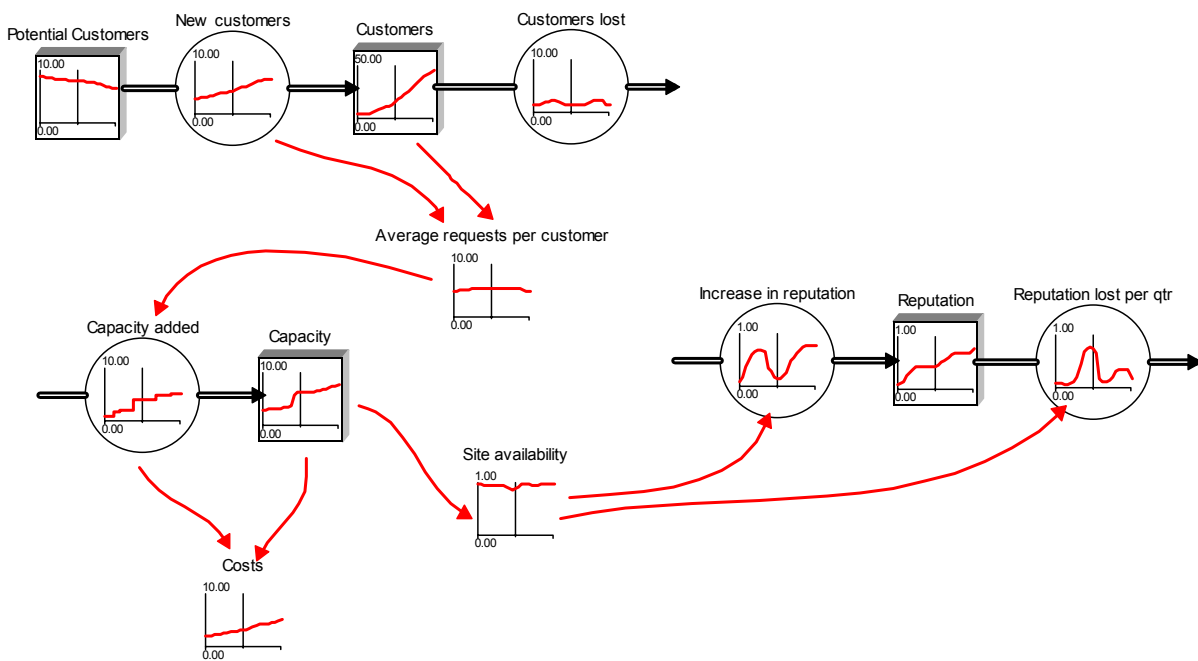
The primary input into eBay’s PDC building activities is people. During the dot com boom, the availability of skilled software developers was continually cited as a key risk to the company’s ability build and launch innovative products and services. With softer labour markets, this constraint is lessened; it is assumed that as eBay builds its stock of stored knowledge (procedures), they are somewhat insulated against tight market conditions and may even be

able to reduce product development staff if required.



**Technical Capacity Dynamics**

The key driver of the rate at which capacity is added, is the number of requests for service generated by customers. If system availability falls below targeted levels, this will cause the fraction of requests served successfully to fall below target, which will in turn reduce the company’s reputation. As the company’s reputation declines, fewer new customers are captured as a result of word-of-mouth, reducing the level of requests to be served. As a result, demands on the infrastructure are brought down to a level where existing capacity can service the targeted fraction of user requests. Marketing is the primary driver of incremental increased demands on the infrastructure, as new marketing campaigns encourage new customers into the system or existing customers to transact more frequently. Following the severe outages in 1999, eBay has developed the ability to predict with some accuracy the expected spikes in demand and provision for them in advance.



**Reputation Dynamics**

As mentioned in the resource dynamics section, reputation is an essential resource for eBay that impacts a number of areas in the system, in fact it is not unfair to say that the absence or reduction in reputation could destroy eBay. It is possible to impute from the rapidly growing levels of registered users and the subsequent increase in the levels of listings that the reputation of eBay has followed a dramatic path upwards. This is based on the assumption that if eBay did not have a strong reputation than it would not certainly be able to transact business to the level at which it does now i.e. \$9bn in annual gross merchandise sales (2001). That said, the company must continue to replenish the trust pool as their will continue to be leakages due to the nature of the business e.g. service downtime, buyer or seller misrepresentation or external events such as September 11 that impact indirectly on the reputation stock through peoples confidence and safety. Reputation itself is also created and destroyed by a number of other resources, the key ones are discussed below and highlighted in the chart below.

**Downtime**

This relates to eBay's ability to provide it users the platform to transact business on a 24 hours-a-day, seven-days-a-week basis (one night a week is used for maintenance). Any prolonged level of downtime would diminish the company's reputation, as would regular systems failures - users would question the operational capability of eBay's system including those relating to security. The last quarter of 1999 saw a series of outages for prolonged periods of time that caused a dip in eBay's reputation. The company overcame this essentially by resetting the system by means of refunding all the fees payable for all active auctions at the time of the outage.

Users expect that the system be available and unscheduled downtime only serves to increase the annoyance level – if this breaches the user threshold then their would be catastrophic effects for eBay. eBay has experienced service interruptions for periods of up to 22 hours – this not only reduces revenue earned, but put pressure on technical staff and customer services staff, reduces the goodwill of users and can ultimately lead to users switching to other online auction providers that provide a more stable platform on which to transact.

**Number of complaints - Incidents of Fraud**

The level of complaints (dependent on their nature) will be a major driver of reputation. A high level of complaints either regarding buyer inability to pay for products or seller inability to supply products as described in a timely manner will have a substantial impact on reputation. In order for this to become an issue for the company there has to be reasonably wide-spread abuse by buyers and sellers. Isolated incidents can usually be dealt with using the procedures already in place, such as the SafeHarbour™ programme and the Limited Buyer Protection programmes - the user is also suspended. Whereas wide-spread abuse would clearly call into question the benefits offered by on-line auctions as the level of trust would be very low.

**Buyer and Seller reputation**

In addition to the above, eBay has a process whereby in each transaction the two parties rate each other in terms of accuracy of description and timeliness of delivery, and payment made in full and on time. This system builds the reputation of the buyer and seller in isolation, but also has wider impact on the reputation of the buyer pool and the seller pool – i.e. having a lot of "trustworthy" buyers and sellers ensures that the system can work with minimum of policing.

**Site Functionality and Features**

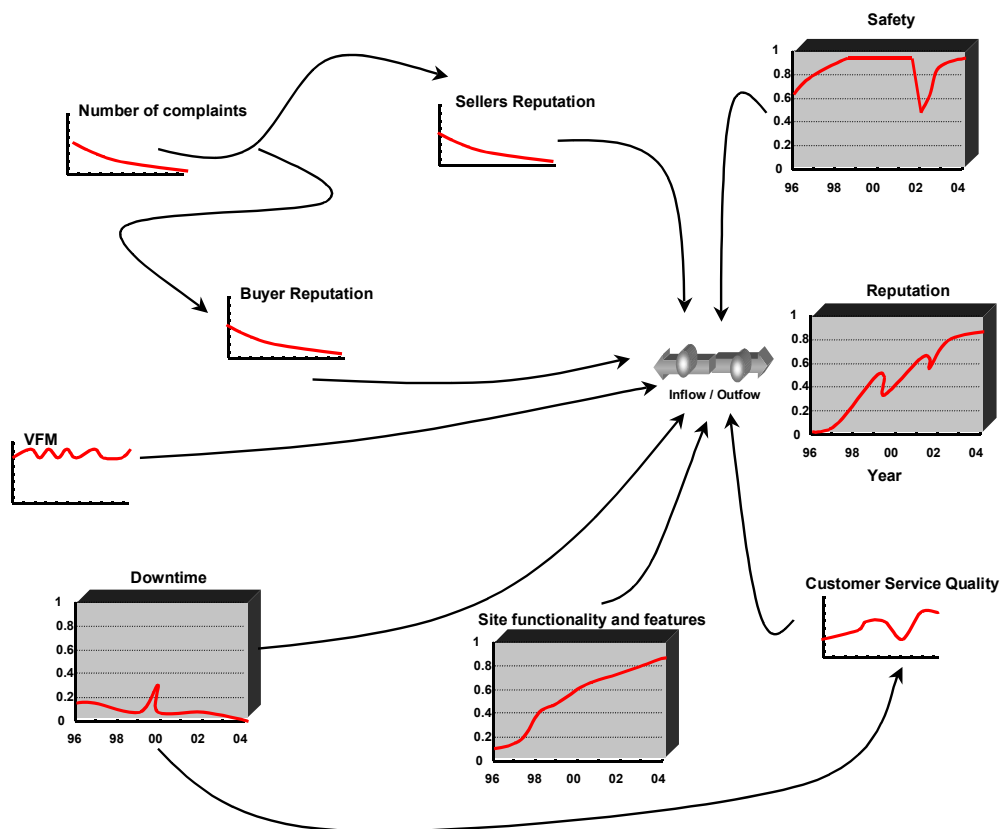
The ability to use and navigate the site has an impact on reputation. A poorly designed site that does not have useful categorisation, ease of use and a usable search engine will serve to reduce the reputation of the site. Whilst having this functionality and features may not serve to increase the level of reputation, its absence will serve to reduce reputation.

**Customer Service Quality**

eBay is very orientated around the online community concept and sells itself on its desire to provide its members with first-rate technology and support to enable its members to hold auctions. The company states that it endeavours to turn around queries (received by email of course) within 24 hours. Whilst under normal working conditions this resource would not be a major factor in reputation, it becomes one when there are issues with the platform or widespread abuse e.g. fraud. In these cases the quality of customer service will fall, exactly at the time when it is needed most – consider the example of Egg, Nectar or even BT Broadband when there is a service failure (impossible to get talk to someone – can not even send an email because the internet is down!!!).

**Safety**

This factor covers people’s willingness to transact business with people they have not met, seen or dealt with before. It is has been included in light of the events of September 11 and the heightened fear of malicious terrorism such as the anthrax mailings in the US. This is external factor that eBay can do little to protect itself apart from vetting sellers more closely.



## 4 Recommendations

It is very difficult to come up with very specific recommendations with timescales for eBay given the age of the business and the success that has been achieved to-date. The recommendations below therefore focus on what the company should monitor in order to determine if it is still on track.

eBay's success has come from its ability to achieve rapid critical mass, thereby developing a stable system that allows for the operation of an efficient auction mechanism. Looking forward, it is evident that it eBay will not be able to sustain the level of growth that it has experienced in the past by simply exploiting the resources that it currently has available to it.

This is particularly true of the two key resources:

**Users** – once this pool of resource has been attracted to eBay, it will not be as easy to grow the User stock, as clearly the pool from which it is obtained (users having internet access) is significantly depleted. Any addition to the depleted stock will have to come from new users gaining access to the web and the demographics of the population. Therefore winning the marginal or new customer may become too expensive.

**Listings** – This resource clearly grows in line with the user resource. But the company has also used the levers available to it in terms of products and services to encourage greater listings. The developments of new product markets and segments will reach a point where the addition does not add value and may in-fact destroy value in terms of users listing products.

As a specific recommendation to the company, it is advisable that they monitor the flow rates in and out of the user stock and listings stock over time, with particular attention paid to inactive users. This analysis should focus on when the user was acquired (some idea of quality of user in that earlier is higher than latter) and how often they had transacted per quarter before they became inactive. This will highlight very early if there are issues with the user stock.

Having identified a slow down in its user acquisition and the level of listings made by users, the firm will need to determine the impact of this on the rest of the system i.e. the need to add additional capacity will diminish, as will the need to continue hiring staff from both a product development and customer service perspective.

It is also important that eBay recognise that this slow down is a natural result of fully exploiting resources and as such does not think it can continue to do this for a prolonged period. It is possible that from the desire to sustain this extremely high level of growth, eBay begins to expand into new geographical areas and business sections that are unsuitable for the business model and capabilities it has developed. An additional external risk of this growth is the expansion of the number of competitors it faces in focussed vertical markets.

It is possible that issues discussed above may not arise for 2 or 3 years, but the company needs to have strategies that are consistent with its view of the future. Finally, with all this in mind the company will need to communicate that the expectations of Wall Street may be too lofty in that a PE of 106 may not be deliverable by the company.

**TEACHERS NOTE** – Ideally, these well-argued recommendations could be shown alongside the anticipated performance of the business architecture from earlier charts.